



*Statement on
Standards for
Attestation Engagements*

April 2016

18

Issued by the Auditing Standards Board

**Attestation Standards:
Clarification and Recodification**

(Supersedes Statement on Standards for Attestation Engagements Nos. 10–17 except:

- *Statement on Standards for Attestation Engagements No. 15, An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements, and related Attestation Interpretation No. 1, “Reporting Under Section 112 of the Federal Deposit Insurance Corporation Improvement Act” [AICPA, Professional Standards, AT sec. 501 and 9501]*
- *Chapter 7, “Management’s Discussion and Analysis,” of Statement on Standards for Attestation Engagements No. 10, Attestation Standards: Revision and Recodification [AICPA, Professional Standards, AT sec. 701]*

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- *Chapter 7, “Management’s Discussion and Analysis,” of Statement on Standards for Attestation Engagements No. 10, Attestation Standards: Revision and Recodification [AICPA, Professional Standards, AT sec. 701])*

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**Exhibit—List of AT-C Sections Designated by Statement on Standards for
Attestation Engagements No. 18, *Attestation Standards: Clarification
and Recodification*, Cross-Referenced to List of AT Sections in
*AICPA Professional Standards***

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FOREWORD

Attestation Clarity Project

To address concerns over the clarity, length, and complexity of its standards, the Auditing Standards Board (ASB) established clarity drafting conventions and undertook a project to redraft all the standards it issues in clarity format. The redrafting of Statements on Standards for Attestation Engagements (SSAEs or attestation standards) in SSAE No. 18, *Attestation Standards: Clarification and Recodification*, (statement) represents the culmination of that process. This statement redrafts all SSAEs, except for the following:

- Chapter 7, “Management’s Discussion and Analysis,” of SSAE No. 10, *Attestation Standards: Revision and Recodification* (AICPA, *Professional Standards*, AT sec. 701)

The ASB decided not to clarify AT section 701 because practitioners rarely perform attestation engagements to report on management’s discussion and analysis prepared pursuant to the rules and regulations adopted by the U.S. Securities and Exchange Commission. Therefore, the ASB decided that AT section 701 should be retained in its current unclarified format as AT-C section 395 of AICPA *Professional Standards* until further notice.

- SSAE No. 15, *An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, and related Attestation Interpretation No. 1, “Reporting Under Section 112 of the Federal Deposit Insurance Corporation Improvement Act” (AICPA, *Professional Standards*, AT sec. 501 and 9501)

The ASB concluded that because engagements performed under AT section 501 are required to be integrated with an audit of financial statements, the content of AT section 501 should be moved to the Statements on Auditing Standards (SASs). As a result, in October 2015, the ASB issued SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (AICPA, *Professional Standards*, AU-C sec. 940). AT section 501 and the related interpretation will be withdrawn when SAS No. 130 becomes effective; the effective date for SAS No. 130 is for integrated audits for periods ending on or after December 15, 2016.

The attestation standards are developed and issued in the form of SSAEs and are codified into sections. This statement recodifies the “AT” section numbers designated by SSAE Nos. 10–17 using the identifier “AT-C” to differentiate the sections of the clarified attestation standards (“AT-C sections”) from the attestation standards that are superseded by this statement (“AT sections”). The AT sections in AICPA *Professional Standards* remain effective through April 2017, by which time substantially all engagements for which the AT sections were still effective are expected to be completed.

The attestation standards have been redrafted in accordance with the clarity drafting conventions, which include the following:

- Establishing objectives for each AT-C section
- Including a definitions section, where relevant, in each AT-C section
- Separating requirements from application and other explanatory material
- Numbering application and other explanatory material paragraphs using an A- prefix and presenting them in a separate section that follows the requirements section
- Using formatting techniques, such as bulleted lists, to enhance readability
- Including, when appropriate, special considerations relevant to audits of smaller, less complex entities within the text of the AT-C section
- Including, when appropriate, special considerations relevant to examination, review, or agreed-upon procedures engagements for governmental entities within the text of the AT-C section

Convergence

It is the ASB's general strategy to converge its standards with those of the International Auditing and Assurance Standards Board. Accordingly, the foundation for AT-C section 105, *Concepts Common to All Attestation Engagements*; AT-C section 205, *Examination Engagements*; and AT-C section 210, *Review Engagements*, is International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. Many of the paragraphs in this statement have been converged with the related paragraphs in ISAE 3000 (Revised), with certain changes made to reflect U.S. professional standards. Other content included in this statement is derived from the extant SSAEs.

The ASB decided not to adopt certain provisions of ISAE 3000 (Revised), for example, in this statement, a practitioner is not permitted to issue an examination or review report if the practitioner has not obtained a written assertion from the responsible party, except when the engaging party is not the responsible party. In the ISAEs, an assertion (or representation about the subject matter against the criteria) is not required in order for the practitioner to report.

AT-C section 215, *Agreed-Upon Procedures Engagements*, is based on a redrafting of extant AT section 201, *Agreed-Upon Procedures Engagements (AICPA, Professional Standards)*, in clarified format. ISAE 3000 (Revised) does not address agreed-upon procedures engagements.

Authority of the SSAEs

SSAEs are issued by senior committees of the AICPA designated to issue pronouncements on attestation matters applicable to the preparation and issuance of attestation reports for entities that

are nonissuers. The “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001) of the AICPA Code of Professional Conduct requires an AICPA member performing an attestation engagement for a nonissuer (a practitioner) to comply with standards promulgated by the ASB. A practitioner must comply with an unconditional requirement in all cases in which such requirement is relevant. A practitioner also must comply with a presumptively mandatory requirement in all cases in which such requirement is relevant. However, if, in rare circumstances, a practitioner judges it necessary to depart from a relevant presumptively mandatory requirement, the practitioner must document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.

Exhibits and interpretations to SSAEs are *interpretive publications*, as defined in section 105. Section 105 requires the practitioner to consider applicable interpretive publications in planning and performing the attestation engagement. Interpretive publications are not attestation standards. Interpretive publications are recommendations on the application of the SSAEs in specific circumstances, including engagements for entities in specialized industries. An interpretive publication is issued under the authority of the relevant senior technical committee after all members of the committee have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with the SSAEs. Attestation interpretations are included in AT-C sections of AICPA *Professional Standards*. AICPA Guides and Attestation Statements of Position are listed in AT-C appendix A, “AICPA Guides and Statements of Position,” of AICPA *Professional Standards*.

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AT-C Preface*

Preface to the Attestation Standards

.01 The Statements on Standards for Attestation Engagements (SSAEs or attestation standards) establish requirements and provide application guidance for performing and reporting on examination, review, and agreed-upon procedures engagements (attestation engagements). Examples of subject matter for attestation engagements are a schedule of investment returns, the effectiveness of an entity’s controls over the security of a system, or a statement of greenhouse gas emissions.

.02 The attestation standards are issued under the “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET section 1.310.001), of the AICPA Code of Professional Conduct, which requires an AICPA member who performs an attestation engagement to comply with standards promulgated by bodies designated by AICPA council. AICPA council has granted the Auditing Standards Board authority to promulgate the attestation standards, which are issued through a due process that includes deliberation in meetings open to the public, public exposure of proposed attestation standards, and a formal vote by an authorized standard-setting body.

.03 This preface provides an overview of the attestation standards but does not establish requirements and does not carry any authority. It is intended to be helpful in understanding attestation engagements.

.04 The attestation standards are developed and issued in the form of SSAEs and are codified into sections. The identifier “AT-C” is used to differentiate the sections of the clarified attestation standards issued in April 2016 (AT-C sections) from the sections of the attestation standards they supersede (identified as AT sections).

Structure of the Attestation Standards

.05 The attestation standards apply to three levels of service—examination, review, and agreed-upon procedures—and can be applied to innumerable types of subject matter. The applicability of specific AT-C sections to an engagement depends on both the level of service provided and the subject matter on which the practitioner is engaged to report.

.06 Section 105, *Concepts Common to All Attestation Engagements*, contains concepts that are relevant to any attestation engagement. The level of service sections are section 205, *Examination Engagements*; section 210, *Review Engagements*; and section 215, *Agreed-Upon Procedures Engagements*, which contain additional requirements and application guidance specific to examination, review, or agreed-upon procedures engagements, respectively. Under the attestation standards, the applicable requirements and application guidance for any attestation engagement are contained in at least two sections: section 105 and section 205, 210, or 215, depending on the level of service being provided. In addition, incremental performance and reporting requirements and application guidance unique to specific subject matters, such as

*This section contains an “AT-C” identifier, instead of an “AT” identifier, to avoid confusion with references to existing “AT” sections, which remain effective through April 2017, in AICPA Professional Standards.

prospective financial information or compliance with laws and regulations, are contained in the subject-matter sections. The applicable requirements and application guidance for a subject-matter-specific engagement is contained in three sections: section 105; section 205, 210, or 215, as applicable; and the applicable subject-matter section.

Purpose of the Engagement and Premise on Which an Attestation Engagement Is Conducted

.07 The purpose of an attestation engagement is to provide users of information, generally third parties, with an opinion, conclusion, or findings regarding the reliability of subject matter or an assertion about the subject matter, as measured against suitable and available criteria. (An examination engagement results in an opinion; a review engagement results in a conclusion; and an agreed-upon procedures engagement results in findings.) The practitioner's report is intended to enhance the degree of confidence that intended users can place in the subject matter.

Responsibilities

.08 An engagement in accordance with the attestation standards is conducted on the premise that the responsible party is responsible for

- the subject matter (and, if applicable, the preparation and presentation of the subject matter) in accordance with (or based on) the criteria
- its assertion about the subject matter;
- measuring, evaluating, and, when applicable, presenting subject matter that is free from material misstatement, whether due to fraud or error; and
- providing the practitioner with
 - access to all information of which the responsible party is aware that is relevant to the measurement, evaluation, or disclosure of the subject matter;
 - access to additional information that the practitioner may request from the responsible party for the purpose of the engagement; and
 - unrestricted access to persons within the appropriate party(ies) from whom the practitioner determines it is necessary to obtain evidence.

.09 Practitioners are responsible for complying with the relevant performance and reporting requirements established in the attestation standards when they are engaged to issue, or do issue, an examination, review, or agreed-upon procedures report on subject matter or an assertion about subject matter that is the responsibility of another party (the responsible party). Although a practitioner may assist the responsible party in developing or presenting the subject matter, the responsible party remains responsible for the subject matter.

Performance

.10 In all services provided under the attestation standards, practitioners are responsible for

- having the appropriate competence and capabilities to perform the engagement,

- complying with relevant ethical requirements,
- maintaining professional skepticism, and
- exercising professional judgment throughout the planning and performance of the engagement.

.11 To express an opinion in an examination, the practitioner obtains reasonable assurance about whether the subject matter, or an assertion about the subject matter, is free from material misstatement, whether due to fraud or error. To obtain reasonable assurance, which is a high but not absolute level of assurance, the practitioner

- plans the work and properly supervises other members of the engagement team.
- identifies and assesses the risks of material misstatement, whether due to fraud or error, based on an understanding of the subject matter, its measurement or evaluation, the criteria, and other engagement circumstances.
- obtains sufficient appropriate evidence about whether material misstatements exist by designing and implementing appropriate responses to the assessed risks. Examination procedures may involve inspection, observation, analysis, inquiry, reperformance, recalculation, or confirmation with outside parties.

.12 To express a conclusion in a review, the practitioner obtains limited assurance about whether any material modification should be made to the subject matter in order for it be in accordance with (or based on) the criteria or to an assertion about the subject matter in order for it to be fairly stated. In a review, the nature and extent of the procedures are substantially less than in an examination. To obtain limited assurance in a review, the practitioner

- plans the work and properly supervises other members of the engagement team.
- focuses procedures in those areas in which the practitioner believes increased risks of misstatements exist, whether due to fraud or error, based on the practitioner's understanding of the subject matter, its measurement or evaluation, the criteria, and other engagement circumstances.
- obtains review evidence, through the application of inquiry and analytical procedures or other procedures as appropriate, to obtain limited assurance that no material modifications should be made to the subject matter in order for it to be in accordance with (or based on) the criteria.

.13 To report on the application of agreed-upon procedures, the practitioner applies procedures determined by the specified parties who are the intended users of the practitioner's report and who are responsible for the sufficiency of the procedures for their purposes. As a result of the engagement, the practitioner reports on the results of the engagement but does not provide an opinion or conclusion on the subject matter or assertion. In an agreed-upon procedures engagement, the practitioner

- plans the work and properly supervises other members of the engagement team.
- applies the procedures agreed to by the specified parties and reports on their results.

Reporting

.14 Based on evidence obtained, the practitioner expresses an opinion in an examination, expresses a conclusion in a review, or reports findings in an agreed-upon procedures engagement. In the case of an examination, the practitioner's report provides an opinion about whether the subject matter, as measured against the criteria, is in accordance with (or based on) the criteria (or whether the assertion about the subject matter is fairly stated), in all material respects. In a review, the report expresses a conclusion about whether, based on the limited procedures, the practitioner is aware of any material modification that should be made to the subject matter in order for it to be in accordance with (or based on) the criteria or to the assertion in order for it to be fairly stated. In an agreed-upon procedures report, the practitioner describes the specified procedures that were applied to the subject matter and the results of those procedures.

AT-C Section 100

Common Concepts

AT-C Section 105*

Concepts Common to All Attestation Engagements

Introduction

.01 This section applies to engagements in which a CPA in the practice of public accounting is engaged to issue, or does issue, a practitioner's examination, review, or agreed-upon procedures report on subject matter or an assertion about subject matter (hereinafter referred to as an *assertion*) that is the responsibility of another party. (Ref: par. .A1)

.02 An attestation engagement is predicated on the concept that a party other than the practitioner makes an assertion about whether the subject matter is measured or evaluated in accordance with suitable criteria. Section 205, *Examination Engagements*; section 210, *Review Engagements*; and section 215, *Agreed-Upon Procedures Engagements* require the practitioner to request such an assertion in writing when performing an examination, review, or agreed-upon procedures engagement.¹ In examination and review engagements, when the engaging party is the responsible party, the responsible party's refusal to provide a written assertion requires the practitioner to withdraw from the engagement when withdrawal is possible under applicable laws and regulations.² In examination and review engagements, when the engaging party is not the responsible party and the responsible party refuses to provide a written assertion, the practitioner need not withdraw from the engagement but is required to disclose that refusal in the practitioner's report and restrict the use of the report to the engaging party.³ In an agreed-upon procedures engagement, the responsible party's refusal to provide a written assertion requires the practitioner to disclose that refusal in the report.⁴

.03 This section is not applicable to professional services for which the AICPA has established other professional standards, for example, services performed in accordance with (Ref: par. .A2-.A3)

- a. Statements on Auditing Standards,
- b. Statements on Standards for Accounting and Review Services, or
- c. Statements on Standards for Tax Services.

* This section contains an "AT-C" identifier, instead of an "AT" identifier, to avoid confusion with references to existing "AT" sections, which remain effective through April 2017 in AICPA *Professional Standards*.

¹ Paragraph .10 of section 205, *Examination Engagements*; paragraph .11 of section 210, *Review Engagements*; and paragraph .15 of section 215, *Agreed-Upon Procedures Engagements*.

² Paragraph .82 of section 205 and paragraph .59 of section 210.

³ Paragraph .84 of section 205 and paragraph .60 of section 210.

⁴ Paragraph .36 of section 215.

.04 An attestation engagement may be part of a larger engagement, for example, a feasibility study or business acquisition study that also includes an examination of prospective financial information. In such circumstances, the attestation standards apply only to the attestation portion of the engagement.

Compliance With the Attestation Standards

.05 The “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001), of the AICPA Code of Professional Conduct requires members who perform professional services to comply with standards promulgated by bodies designated by the Council of the AICPA.

Relationship of Attestation Standards to Quality Control Standards

.06 Quality control systems, policies, and procedures are the responsibility of the firm in conducting its attestation practice. Under QC section 10, *A Firm’s System of Quality Control* (AICPA, *Professional Standards*), the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that⁵ (Ref: par. .A4–.A6)

- a. the firm and its personnel comply with professional standards and applicable legal and regulatory requirements and
- b. practitioners’ reports issued by the firm are appropriate in the circumstances.

.07 Attestation standards relate to the conduct of individual attestation engagements; quality control standards relate to the conduct of a firm’s attestation practice as a whole. Thus, attestation standards and quality control standards are related, and the quality control policies and procedures that a firm adopts may affect both the conduct of individual attestation engagements and the conduct of a firm’s attestation practice as a whole. However, deficiencies in or instances of noncompliance with a firm’s quality control policies and procedures do not, in and of themselves, indicate that a particular engagement was not performed in accordance with the attestation standards.

Effective Date

.08 This section is effective for practitioners’ reports dated on or after May 1, 2017.

Objectives

.09 In conducting an attestation engagement, the overall objectives of the practitioner are to

- a. apply the requirements relevant to the attestation engagement;
- b. report on the subject matter or assertion, and communicate as required by the applicable AT-C section, in accordance with the results of the practitioner’s procedures; and
- c. implement quality control procedures at the engagement level that provide the practitioner with reasonable assurance that the attestation engagement complies with

⁵ Paragraph .12 of QC section 10, *A Firm’s System of Quality Control* (AICPA, *Professional Standards*).

professional standards and applicable legal and regulatory requirements.

Definitions

.10 For purposes of the attestation standards, the following terms have the meanings attributed as follows:

Assertion. Any declaration or set of declarations about whether the subject matter is in accordance with (or based on) the criteria.

Attestation engagement. An examination, review, or agreed-upon procedures engagement performed under the attestation standards related to subject matter or an assertion that is the responsibility of another party. The following are the three types of attestation engagements:

- a.* **Examination engagement.** An attestation engagement in which the practitioner obtains reasonable assurance by obtaining sufficient appropriate evidence about the measurement or evaluation of subject matter against criteria in order to be able to draw reasonable conclusions on which to base the practitioner's opinion about whether the subject matter is in accordance with (or based on) the criteria or the assertion is fairly stated, in all material respects. (Ref: par. .A7)
- b.* **Review engagement.** An attestation engagement in which the practitioner obtains limited assurance by obtaining sufficient appropriate review evidence about the measurement or evaluation of subject matter against criteria in order to express a conclusion about whether any material modification should be made to the subject matter in order for it to be in accordance with (or based on) the criteria or to the assertion in order for it to be fairly stated. (Ref: par. .A8)
- c.* **Agreed-upon procedures engagement.** An attestation engagement in which a practitioner performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion on it. The parties to the engagement (*specified party*), as defined later in this paragraph, agree upon and are responsible for the sufficiency of the procedures for their purposes.

Attestation risk. In an examination or review engagement, the risk that the practitioner expresses an inappropriate opinion or conclusion, as applicable, when the subject matter or assertion is materially misstated. (Ref: par. .A9–.A15)

Criteria. The benchmarks used to measure or evaluate the subject matter. (Ref: par. .A16)

Documentation completion date. The date on which the practitioner has assembled for retention a complete and final set of documentation in the engagement file.

Engagement circumstances. The broad context defining the particular engagement, which includes the terms of the engagement; whether it is an examination, review, or agreed-upon procedures engagement; the characteristics of the subject matter; the criteria; the information needs of the intended users; relevant characteristics of the responsible party and, if different, the engaging party and their environment; and other matters, for example, events, transactions, conditions and practices, and relevant laws and regulations, that may have a significant effect on the engagement.

Engagement documentation. The record of procedures performed, relevant evidence obtained, and, in an examination or review engagement, conclusions reached by the practitioner, or in an agreed-upon procedures engagement, findings of the practitioner. (Terms such as *working papers* or *workpapers* are also sometimes used).

Engagement partner. The partner or other person in the firm who is responsible for the attestation engagement and its performance and for the practitioner's report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body. *Engagement partner*, *partner*, and *firm* refer to their governmental equivalents when relevant.

Engagement team. All partners and staff performing the engagement and any individuals engaged by the firm or a network firm who perform attestation procedures on the engagement. This excludes a practitioner's external specialist and engagement quality control reviewer engaged by the firm or a network firm. The term *engagement team* also excludes individuals within the client's internal audit function who provide direct assistance.

Engaging party. The party(ies) that engages the practitioner to perform the attestation engagement. (Ref: par. .A17)

Evidence. Information used by the practitioner in arriving at the opinion, conclusion, or findings on which the practitioner's report is based.

Firm. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in the practice of public accounting.

Fraud. An intentional act involving the use of deception that results in a misstatement in the subject matter or the assertion.

General use. Use of a practitioner's report that is not restricted to specified parties.

Internal audit function. A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management, and internal control processes.

Misstatement. A difference between the measurement or evaluation of the subject matter by the responsible party and the proper measurement or evaluation of the subject matter based on the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. In certain engagements, a misstatement may be referred to as a *deviation*, *exception*, or *instance of noncompliance*.

Network firm. A firm or other entity that belongs to a network, as defined in ET section 0.400, *Definitions* (AICPA, *Professional Standards*).

Noncompliance with laws or regulations. Acts of omission or commission by the entity, either intentional or unintentional, that are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. *Noncompliance* does not include personal misconduct (unrelated to the subject matter) by those charged with governance, management, or employees of the entity.

Other practitioner. An independent practitioner who is not a member of the engagement team who performs work on information that will be used as evidence by the practitioner performing the attestation engagement. An other practitioner may be part of the practitioner's firm, a network firm, or another firm.

Practitioner. The person or persons conducting the attestation engagement, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. When an AT-C section expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term *engagement partner*, rather than *practitioner*, is used. *Engagement partner* and *firm* are to be read as referring to their governmental equivalents when relevant.

Practitioner's specialist. An individual or organization possessing expertise in a field other than accounting or attestation, whose work in that field is used by the practitioner to assist the practitioner in obtaining evidence for the service being provided. A practitioner's specialist may be either a practitioner's internal specialist (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm) or a practitioner's external specialist. *Partner* and *firm* refer to their governmental equivalents when relevant.

Professional judgment. The application of relevant training, knowledge, and experience, within the context provided by attestation and ethical standards in making informed decisions about the courses of action that are appropriate in the circumstances of the attestation engagement.

Professional skepticism. An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of evidence.

Reasonable assurance. A high, but not absolute, level of assurance.

Report release date. The date on which the practitioner grants the engaging party permission to use the practitioner's report.

Responsible party. The party(ies) responsible for the subject matter. If the nature of the subject matter is such that no such party exists, a party who has a reasonable basis for making a written assertion about the subject matter may be deemed to be the responsible party.

Specified party. The intended user(s) to whom use of the written practitioner's report is limited.

Subject matter. The phenomenon that is measured or evaluated by applying criteria.

.11 For the purposes of the attestation standards, references to appropriate party(ies) should be read hereafter as the responsible party or the engaging party, as appropriate. (Ref: par. .A18)

Requirements

Conduct of an Attestation Engagement in Accordance With the Attestation Standards

Complying With AT-C Sections That Are Relevant to the Engagement

.12 When performing an attestation engagement, the practitioner should comply with

- this section;
- sections 205, 210, or 215, as applicable; and
- any subject-matter AT-C section relevant to the engagement when the AT-C section is in effect and the circumstances addressed by the AT-C section exist.

.13 The practitioner should not represent compliance with this or any other AT-C section unless the practitioner has complied with the requirements of this section and all other AT-C sections relevant to the engagement.

.14 Reports issued by a practitioner in connection with services performed under other professional standards should be written to be clearly distinguishable from and not confused with reports issued under the attestation standards. (Ref: par. .A19–.A20)

Text of an AT-C Section

.15 The practitioner should have an understanding of the entire text of each AT-C section that is relevant to the engagement being performed, including its application and other explanatory material, to understand its objectives and apply its requirements properly. (Ref: par. .A21–.A26)

Complying With Relevant Requirements

.16 Subject to paragraph .20, the practitioner should comply with each requirement of the AT-C sections that is relevant to the engagement being performed, including any relevant subject-matter AT-C section, unless, in the circumstances of the engagement,

- a. the entire AT-C section is not relevant, or
- b. the requirement is not relevant because it is conditional, and the condition does not exist.

.17 When a practitioner undertakes an attestation engagement for the benefit of a government body or agency and agrees to follow specified government standards, guides, procedures, statutes, rules, and regulations, the practitioner should comply with those governmental requirements as well as the applicable AT-C sections. (Ref: par. .A27)

Practitioner's Report Prescribed by Law or Regulation

.18 If the practitioner is required by law or regulation to use a specific layout, form, or wording of the practitioner's report and the prescribed form of report is not acceptable or would cause a practitioner to make a statement that the practitioner has no basis to make, the practitioner should reword the prescribed form of report or attach an appropriately worded separate practitioner's report. (Ref: par. .A28)

Defining Professional Requirements in the Attestation Standards

.19 The attestation standards use the following two categories of professional requirements, identified by specific terms, to describe the degree of responsibility it imposes on practitioners:

- *Unconditional requirements.* The practitioner must comply with an unconditional requirement in all cases in which such requirement is relevant. The attestation standards use the word *must* to indicate an unconditional requirement.
- *Presumptively mandatory requirements.* The practitioner must comply with a presumptively mandatory requirement in all cases in which such a requirement is relevant, except in rare circumstances discussed in paragraph .20. The attestation standards use the word *should* to indicate a presumptively mandatory requirement.

Departure From a Relevant Requirement

.20 In rare circumstances, the practitioner may judge it necessary to depart from a relevant presumptively mandatory requirement. In such circumstances, the practitioner should perform alternative procedures to achieve the intent of that requirement. The need for the practitioner to depart from a relevant, presumptively mandatory requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the intent of the requirement. (Ref: par. .A29)

Interpretive Publications

.21 The practitioner should consider applicable interpretive publications in planning and performing the attestation engagement. (Ref: par. .A30)

Other Attestation Publications

.22 In applying the attestation guidance included in an other attestation publication, the practitioner should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the attestation engagement. (Ref: par. .A31–.A33)

Acceptance and Continuance

.23 The engagement partner should be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and attestation engagements have been followed and should determine that conclusions reached in this regard are appropriate.

Preconditions for an Attestation Engagement

.24 The practitioner must be independent when performing an attestation engagement in accordance with the attestation standards unless the practitioner is required by law or regulation to accept the engagement and report on the subject matter or assertion. (Ref: par. .A34)

.25 In order to establish that the preconditions for an attestation engagement are present, the practitioner should determine both of the following:

- a.* The responsible party is a party other than the practitioner and takes responsibility for the subject matter. (Ref: par. .A35)
- b.* The engagement exhibits all of the following characteristics:
 - i.* The subject matter is appropriate. (Ref: par. .A36–.A41)
 - ii.* The criteria to be applied in the preparation and evaluation of the subject matter are suitable and will be available to the intended users. (Ref: par. .A43–.A52)
 - iii.* The practitioner expects to be able to obtain the evidence needed to arrive at the practitioner’s opinion, conclusion, or findings, including (Ref: par. .A53–.A54)
 - (1) access to all information of which the responsible party is aware that is relevant to the measurement, evaluation, or disclosure of the subject matter;
 - (2) access to additional information that the practitioner may request from the responsible party for the purpose of the engagement; and
 - (3) unrestricted access to persons within the appropriate party(ies) from whom the practitioner determines it necessary to obtain evidence.
 - iv.* The practitioner’s opinion, conclusion, or findings, in the form appropriate to the engagement, is to be contained in a written practitioner’s report.

.26 If the preconditions in paragraphs .24–.25 are not present, the practitioner should discuss the matter with the engaging party to attempt to resolve the issue.

.27 The practitioner should accept an attestation engagement only when the practitioner

- a.* has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- b.* is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities (see also paragraph .32);
- c.* has determined that the engagement to be performed meets all the preconditions for an attestation engagement (see also paragraphs .24–.25); and
- d.* has reached a common understanding with the engaging party of the terms of the engagement, including the practitioner’s reporting responsibilities.

.28 If it is discovered after the engagement has been accepted that one or more of the preconditions for an attestation engagement is not present, the practitioner should discuss the matter with the appropriate party(ies) and should determine

- a.* whether the matter can be resolved;
- b.* whether it is appropriate to continue with the engagement; and

- c. if the matter cannot be resolved but it is still appropriate to continue with the engagement, whether, and if so how, to communicate the matter in the practitioner's report.

Acceptance of a Change in the Terms of the Engagement

.29 The practitioner should not agree to a change in the terms of the engagement when no reasonable justification for doing so exists. If a change in the terms of the engagement is made, the practitioner should not disregard evidence that was obtained prior to the change. (Ref: par. .A55–.A56)

.30 If the practitioner concludes, based on the practitioner's professional judgment, that there is reasonable justification to change the terms of the engagement from the original level of service that the practitioner was engaged to perform to a lower level of service, for example, from an examination to a review, and if the practitioner complies with the AT-C sections applicable to the lower level of service, the practitioner should issue an appropriate practitioner's report on the lower level of service. The report should not include reference to (a) the original engagement, (b) any procedures that may have been performed, or (c) scope limitations that resulted in the changed engagement.

Using the Work of an Other Practitioner

.31 When the practitioner expects to use the work of an other practitioner, the practitioner should (Ref: par. .A57–.A58)

- a. obtain an understanding of whether the other practitioner understands and will comply with the ethical requirements that are relevant to the engagement and, in particular, is independent.
- b. obtain an understanding of the other practitioner's professional competence.
- c. communicate clearly with the other practitioner about the scope and timing of the other practitioner's work and findings.
- d. if assuming responsibility for the work of the other practitioner, be involved in the work of the other practitioner.
- e. evaluate whether the other practitioner's work is adequate for the practitioner's purposes.
- f. determine whether to make reference to the other practitioner in the practitioner's report.

Quality Control

Assignment of the Engagement Team and the Practitioner's Specialists

.32 The engagement partner should be satisfied that

- a. the engagement team, and any practitioner's external specialists, collectively, have the appropriate competence, including knowledge of the subject matter, and capabilities to (Ref: par. .A59–.A60)
 - i perform the engagement in accordance with professional standards and applicable legal and regulatory requirements and
 - ii enable the issuance of a practitioner's report that is appropriate in the circumstances.
- b. to an extent that is sufficient to accept responsibility for the opinion, conclusion, or findings on the subject matter or assertion, the engagement team will be able to be involved in the work of
 - i. a practitioner's external specialist when the work of that specialist is to be used and (Ref: par. .A61)
 - ii an other practitioner, when the work of that practitioner is to be used.
- c. those involved in the engagement have been informed of their responsibilities, including the objectives of the procedures they are to perform and matters that may affect the nature, timing, and extent of such procedures.
- d. engagement team members have been directed to bring to the engagement partner's attention significant questions raised during the engagement so that their significance may be assessed.

Leadership Responsibilities for Quality in Attestation Engagements

.33 The engagement partner should take responsibility for the overall quality on each attestation engagement. This includes responsibility for the following:

- a. Appropriate procedures being performed regarding the acceptance and continuance of client relationships and engagements
- b. The engagement being planned and performed (including appropriate direction and supervision) to comply with professional standards and applicable legal and regulatory requirements
- c. Reviews being performed in accordance with the firm's review policies and procedures and reviewing the engagement documentation on or before the date of the practitioner's report (Ref: par. .A62)
- d. Appropriate engagement documentation being maintained to provide evidence of achievement of the practitioner's objectives and that the engagement was performed in accordance with the attestation standards and relevant legal and regulatory requirements
- e. Appropriate consultation being undertaken by the engagement team on difficult or contentious matters

Engagement Documentation

.34 The practitioner should prepare engagement documentation on a timely basis. (Ref: par. .A63)

.35 The practitioner should assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file no later than 60 days following the practitioner's report release date. (Ref: par. .A64)

.36 After the documentation completion date, the practitioner should not delete or discard documentation of any nature before the end of its retention period.

.37 If the practitioner finds it necessary to amend existing engagement documentation or add new engagement documentation after the documentation completion date, the practitioner should, regardless of the nature of the amendments or additions, document

- a. the specific reasons for making the amendments or additions and
- b. when, and by whom, they were made and reviewed.

.38 Engagement documentation is the property of the practitioner, and some jurisdictions recognize this right of ownership in their statutes. The practitioner should adopt reasonable procedures to retain engagement documentation for a period of time sufficient to meet the needs of the practitioner and to satisfy any applicable legal or regulatory requirements for records retention.

.39 Because engagement documentation often contains confidential information, the practitioner should adopt reasonable procedures to maintain the confidentiality of that information.

.40 The practitioner also should adopt reasonable procedures to prevent unauthorized access to engagement documentation.

.41 If, in rare circumstances, the practitioner judges it necessary to depart from a relevant, presumptively mandatory requirement, the practitioner should document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement. (See paragraph .20.)

Engagement Quality Control Review

.42 For those engagements, if any, for which the firm has determined that an engagement quality control review is required (Ref: par. .A65)

- a. the engagement partner should take responsibility for discussing with the engagement quality control reviewer significant findings or issues arising during the engagement, including those identified during the engagement quality control review, and not release the practitioner's report until completion of the engagement quality control review and
- b. the engagement quality control reviewer should perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in

formulating the report. This evaluation should include the following:

- i. Discussion of significant findings or issues with the engagement partner
- ii. Reading the written subject matter or assertion and the proposed report
- iii. Reading selected engagement documentation relating to the significant judgments the engagement team made and the related conclusions it reached
- iv. Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate

Professional Skepticism and Professional Judgment

Professional Skepticism

.43 The practitioner should plan and perform an attestation engagement with professional skepticism. (Ref: par. .A66–.A68)

.44 Unless the practitioner has reason to believe the contrary, the practitioner may accept records and documents as genuine. If conditions identified during the attestation engagement cause the practitioner to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the practitioner, the practitioner should investigate further.

Professional Judgment

.45 The practitioner should exercise professional judgment in planning and performing an attestation engagement. (Ref: par. .A69–.A74)

Application and Other Explanatory Material

Introduction (Ref: par. .01 and .03)

.A1 The subject matter of an attestation engagement may take many forms, including the following:

- a. Historical or prospective performance or condition, for example, historical or prospective financial information, performance measurements, and backlog data
- b. Physical characteristics, for example, narrative descriptions or square footage of facilities
- c. Historical events, for example, the price of a market basket of goods on a certain date
- d. Analyses, for example, break-even analyses
- e. Systems and processes, for example, internal control
- f. Behavior, for example, corporate governance, compliance with laws and regulations, and human resource practices

The subject matter may be as of a point in time or for a period of time.

.A2 The attestation standards do not apply to litigation services that involve pending or potential legal or regulatory proceedings before a trier of fact when the practitioner has not been engaged to issue, and does not issue, a practitioner's examination, review, or agreed-upon procedures report on subject matter or an assertion that is the responsibility of another party and any of the following circumstances exist:

- a. The service comprises being an expert witness.
- b. The service comprises being a trier of fact or acting on behalf of one.
- c. The practitioner's work under the rules of the proceedings is subject to detailed analysis and challenge by each party to the dispute.
- d. The practitioner is engaged by an attorney to do work that will be protected by the attorney's work product or attorney-client privilege, and such work is not intended to be used for other purposes.

.A3 Because performance audits performed pursuant to *Government Auditing Standards* do not require a practitioner's examination, review, or agreed-upon procedures report as described in this section, this section does not apply to performance audits unless the practitioner engaged to conduct a performance audit is also engaged to conduct an AICPA attestation engagement or issues such an examination, review, or agreed-upon procedures report.

Relationship of Attestation Standards to Quality Control Standards (Ref: par. .06)

.A4 The nature and extent of a firm's quality control policies and procedures depend on factors such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations.

.A5 Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures that are applicable to the attestation engagement and provide the firm with relevant information to enable the functioning of that part of the firm's quality control relating to independence.

.A6 Engagement teams are entitled to rely on the firm's system of quality control, unless the engagement partner determines that it is inappropriate to do so based on information provided by the firm or other parties.

Definitions

Examination Engagement (Ref: par. .10)

.A7 The practitioner obtains the same level of assurance in an examination engagement as the practitioner does in a financial statement audit.

Review Engagement (Ref: par. .10)

.A8 The practitioner obtains the same level of assurance in a review engagement as the practitioner does in a review of financial statements.

Attestation Risk (Ref: par. .10)

.A9 Attestation risk does not refer to the practitioner's business risks, such as loss from litigation, adverse publicity, or other events arising in connection with the subject matter or assertion reported on.

.A10 In general, attestation risk can be represented by the following components, although not all of these components will necessarily be present or significant for all engagements:

- a. Risks that the practitioner does not directly influence, which consist of
 - i. the susceptibility of the subject matter to a material misstatement before consideration of any related controls (inherent risk) and
 - ii. the risk that a material misstatement that could occur in the subject matter will not be prevented, or detected and corrected, on a timely basis by the appropriate party(ies)'s internal control (control risk)
- b. Risk that the practitioner does directly influence, which consists of the risk that the procedures to be performed by the practitioner will not detect a material misstatement (detection risk)

.A11 The degree to which each of these components of attestation risk is relevant to the engagement is affected by the engagement circumstances, in particular

- the nature of the subject matter or assertion. (For example, the concept of control risk may be more useful when the subject matter or assertion relates to the preparation of information about an entity's performance than when it relates to information about the existence of a physical condition.)
- the type of engagement being performed. (For example, in a review engagement, the practitioner may often decide to obtain evidence by means other than tests of controls, in which case, consideration of control risk may be less relevant than in an examination engagement on the same subject matter or assertion.)

.A12 The consideration of risks is a matter of professional judgment, rather than a matter capable of precise measurement.

.A13 In an examination engagement, the practitioner reduces attestation risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's opinion. Reducing attestation risk to zero is not contemplated in an examination engagement and, therefore, reasonable assurance is less than absolute assurance as a result of factors such as the following:

- The use of selective testing
- The inherent limitations of internal control
- The fact that much of the evidence available to the practitioner is persuasive, rather than conclusive

- The use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence
- In some cases, the characteristics of the subject matter when evaluated or measured against the criteria

.A14 In a review engagement, attestation risk is greater than it is in an examination engagement. Because the practitioner obtains limited assurance in a review engagement, the types of procedures performed are less extensive than they are in an examination engagement and generally are limited to inquiries and analytical procedures.

.A15 Attestation risk is not applicable to an agreed-upon procedures engagement because in such engagements, the practitioner performs specific procedures (the design of which is the responsibility of the specified parties) on subject matter or an assertion and reports the findings without providing an opinion or conclusion.

Criteria (Ref: par. .10)

.A16 Suitable criteria are required for reasonably consistent measurement or evaluation of subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same subject matter, there can be different criteria, which will yield a different measurement or evaluation. For example, one responsible party might select the number of customer complaints resolved to the acknowledged satisfaction of the customer for the subject matter of customer satisfaction; another responsible party might select the number of repeat purchases in the three months following the initial purchase. The suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for an examination engagement, they are also unsuitable for a review engagement and vice versa.

Engaging Party (Ref: par. .10)

.A17 The engaging party, depending on the circumstances, may be management or those charged with governance of the responsible party, a governmental body or agency, the intended users, or another third party.

Appropriate Party(ies) (Ref: par. .11)

.A18 Management and governance structures vary by entity, reflecting influences such as size and ownership characteristics. Such diversity means that it is not possible for the attestation standards to specify for all engagements the person(s) with whom the practitioner is to interact regarding particular matters. For example, an entity may be a segment of an organization and not a separate legal entity. In such cases, identifying the appropriate management personnel or those charged with governance with whom to communicate may require the exercise of professional judgment.

Conduct of an Attestation Engagement in Accordance With the Attestation Standards

Complying With AT-C Sections That Are Relevant to the Engagement (Ref: par. .14)

.A19 A practitioner's report that merely excludes the phrase "was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants" but is otherwise similar to a practitioner's examination, review, or agreed-upon procedures attestation report is an example of a practitioner's report that is not clearly distinguishable from, and could be confused with, a report issued under the attestation standards.

.A20 Paragraph .14 does not prohibit combining reports issued by a practitioner under the attestation standards with reports issued under other professional standards.

Text of an AT-C Section (Ref: par. .15)

.A21 The AT-C sections contain the objectives of the practitioner and requirements designed to enable the practitioner to meet those objectives. In addition, they contain related guidance in the form of application and other explanatory material, introductory material that provides context relevant to a proper understanding of the section, and definitions.

.A22 Introductory material may include, as needed, such matters as an explanation of the following:

- The purpose and scope of the AT-C section, including how the AT-C section relates to other AT-C sections
- The subject matter of the AT-C section
- The respective responsibilities of the practitioner and others regarding the subject matter of the AT-C section
- The context in which the AT-C section is set

.A23 The application and other explanatory material provides further explanation of the requirements of an AT-C section and guidance for carrying them out. In particular, it may

- a. explain more precisely what a requirement means or is intended to cover and
- b. include examples of procedures that may be appropriate in the circumstances.

Although such guidance does not, in itself, impose a requirement, it may explain the proper application of the requirements of an AT-C section. The application and other explanatory material may also provide background information on matters addressed in an AT-C section. They do not, however, limit or reduce the responsibility of the practitioner to apply and comply with the requirements in applicable AT-C sections.

.A24 The practitioner is required by paragraph .15 to understand the application and other explanatory material. How the practitioner applies the guidance in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the section. The words *may*, *might*, and *could* are used to describe these actions and procedures.

.A25 An AT-C section may include, in a separate section under the heading “Definition(s),” a description of the meanings attributed to certain terms for purposes of the AT-C section. These are provided to assist in the consistent application and interpretation of the AT-C section and are not intended to override definitions that may be established for other purposes, whether in law, regulation, or otherwise. Unless otherwise indicated, those terms will carry the same meanings in all AT-C sections.

.A26 Appendixes form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related AT-C section or within the title and introduction of the appendix itself.

Complying With Relevant Requirements (Ref: par. .17)

.A27 In certain attestation engagements, the practitioner also may be required to comply with other requirements in addition to the attestation standards. The attestation standards do not override law or regulation that governs the attestation engagement. In the event that such law or regulation differs from attestation standards, an attestation engagement conducted only in accordance with law or regulation will not necessarily comply with the attestation standards.

Practitioner’s Report Prescribed by Law or Regulation (Ref: par. .18)

.A28 Some report forms can be made acceptable by inserting additional wording to include the elements required by sections 205, 210, and 215.⁶ Some report forms required by law or regulation can be made acceptable only by complete revision because the prescribed language of the practitioner’s report calls for statements by the practitioner that are not consistent with the practitioner’s function or responsibility, for example, a report form that requests the practitioner to “certify” the subject matter.

Departure From a Relevant Requirement (Ref: par. .20)

.A29 Paragraph .41 prescribes documentation requirements when the circumstances described in paragraph .20 occur.

Interpretive Publications (Ref: par. .21)

.A30 *Interpretive publications* are not attestation standards. Interpretive publications are recommendations on the application of the attestation standards in specific circumstances, including engagements for entities in specialized industries. An interpretive publication is issued under the authority of the relevant senior technical committee after all members of the committee have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with the attestation standards. Examples of interpretive publications are interpretations of the attestation standards, exhibits to the AT-C sections, and attestation guidance included in AICPA guides and attestation Statements of Position (SOPs). Interpretations of the AT-C sections and exhibits are included within the AT-C sections in *AICPA Professional Standards*. AICPA guides and attestation SOPs are listed in AT-C appendix A, “AICPA Guides and Statements of Position,” of *AICPA Professional Standards*.

Other Attestation Publications (Ref: par. .22)

.A31 *Other attestation publications* are publications other than interpretive publications. These

⁶ Paragraphs .63–.66 of section 205, paragraphs .46–.49 of section 210, and paragraph .35 of section 215.

include AICPA attestation publications not defined as interpretive publications; attestation articles in the *Journal of Accountancy* and other professional journals; continuing professional education programs and other instruction materials, textbooks, guidebooks, attestation programs, and checklists; and other attestation publications from state CPA societies, other organizations, and individuals. Other attestation publications have no authoritative status; however, they may help the practitioner understand and apply the attestation standards. The practitioner is not expected to be aware of the full body of other attestation publications.

.A32 Although the practitioner determines the relevance of these publications in accordance with paragraph .22, the practitioner may presume that other attestation publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are appropriate. These other attestation publications are listed in AT-C appendix B, “Other Attestation Publications,” of *AICPA Professional Standards*.

.A33 In determining whether an other attestation publication that has not been reviewed by the AICPA Audit and Attest Standards staff is appropriate to the circumstances of the attestation engagement, the practitioner may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying the attestation standards and the degree to which the issuer or author is recognized as an authority in attestation matters.

Preconditions for an Attestation Engagement (Ref: par. .24-.25b[ii])

.A34 The “Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements” interpretation (ET sec. 1.297), establishes special requirements for independence for services provided under the attestation standards. In addition, the “Conceptual Framework Approach” interpretation (ET sec. 1.210.010) discusses threats to independence not specifically detailed elsewhere, for example, when the practitioner has an interest in the subject matter.

.A35 The responsible party may acknowledge its responsibility for the subject matter or for the written assertion as it relates to the objective of the engagement in a number of ways, for example, in an engagement letter, a representation letter, or the presentation of the subject matter, including the notes thereto, or the written assertion. Examples of other evidence of the responsible party’s responsibility for the subject matter include reference to legislation, a regulation, or a contract.

Appropriateness of Subject Matter (Ref: par. .25b[i])

.A36 An element of the appropriateness of subject matter is the existence of a reasonable basis for measuring or evaluating the subject matter. The responsible party in an attestation engagement is responsible for having a reasonable basis for measuring or evaluating the subject matter. What constitutes a reasonable basis will depend on the nature of the subject matter and other engagement circumstances. In some cases, a formal process with extensive internal controls may be needed to provide the responsible party with a reasonable basis for concluding that the measurement or evaluation of the subject matter is free from material misstatement. The fact that the practitioner will report on the subject matter or assertion is not a substitute for the responsible party’s own processes to have a reasonable basis for measuring or evaluating the subject matter or assertion.

.A37 An appropriate subject matter

- a. is identifiable and capable of consistent measurement or evaluation against the criteria and
- b. can be subjected to procedures for obtaining sufficient appropriate evidence to support an opinion, conclusion, or findings, as appropriate.

.A38 If the subject matter is not appropriate for an examination engagement, it also is not appropriate for a review engagement.

.A39 Different subject matters have different characteristics, including the degree to which information about them is qualitative versus quantitative, objective versus subjective, historical versus prospective, and relates to a point in time or covers a period. Such characteristics affect the following:

- a. Precision with which the subject matter can be measured or evaluated against criteria
- b. The persuasiveness of available evidence

.A40 Identifying such characteristics and considering their effects assists the practitioner when assessing the appropriateness of the subject matter and also in determining the content of the practitioner's report.

.A41 In some cases, the attestation engagement may relate to only one part of a broader subject matter. For example, the practitioner may be engaged to examine one aspect of an entity's contribution to sustainable development, such as the programs run by the entity that have positive environmental outcomes, and may be aware that the practitioner has not been engaged to examine more significant programs with less favorable outcomes. In such cases, in determining whether the engagement exhibits the characteristic of having an appropriate subject matter, it may be appropriate for the practitioner to consider whether information about the aspect that the practitioner is asked to examine is likely to meet the information needs of intended users.

Suitable and Available Criteria (Ref: par. .25b[ii])

.A42 Suitable criteria exhibit all of the following characteristics:

- *Relevance.* Criteria are relevant to the subject matter.
- *Objectivity.* Criteria are free from bias.
- *Measurability.* Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness.* Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

The relative importance of each characteristic to a particular engagement is a matter of professional judgment.

.A43 Criteria can be developed in a variety of ways, for example, they may be

- embodied in laws or regulations.

- issued by authorized or recognized bodies of experts that follow a transparent due process.
- developed collectively by a group that does not follow a transparent due process.
- published in scholarly journals or books.
- developed for sale on a proprietary basis.
- specifically designed for the purpose of measuring, evaluating, or disclosing the subject matter or assertion in the particular circumstances of the engagement.

How criteria are developed may affect the work that the practitioner carries out to assess their suitability.

.A44 Criteria that are established or developed by groups composed of experts that follow due process procedures, including exposure of the proposed criteria for public comment, are ordinarily considered suitable. Criteria promulgated by a body designated by the Council of the AICPA under the AICPA Code of Professional Conduct are, by definition, considered to be suitable.

.A45 In some cases, laws or regulations prescribe the criteria to be used for the engagement. In the absence of indications to the contrary, such criteria are presumed to be suitable.

.A46 Criteria may be established or developed by the engaging party, the responsible party, industry associations, or other groups that do not follow due process procedures or do not as clearly represent the public interest. The practitioner's determination of whether such criteria are suitable is based on the characteristics described in paragraph .A42.

.A47 Regardless of who establishes or develops the criteria, the responsible party or the engaging party is responsible for selecting the criteria, and the engaging party is responsible for determining that such criteria are appropriate for its purposes.

.A48 Some criteria may be suitable for only a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria. For example, criteria set forth in a lease agreement for override payments may be suitable only for reporting to the parties to the agreement because of the likelihood that such criteria would be misunderstood or misinterpreted by parties other than those who have specifically agreed to the criteria. Such criteria can be agreed upon directly by the parties or through a designated representative.

.A49 Even when established criteria exist for a subject matter, specific users may agree to other criteria for their specific purposes. For example, various frameworks can be used as established criteria for evaluating the effectiveness of internal control. Specific users may, however, develop a more detailed set of criteria that meet their specific information needs.

.A50 If criteria are specifically designed for the purpose of measuring, evaluating, or disclosing the subject matter or assertion in the particular circumstances of the engagement, they are not suitable if they result in subject matter, an assertion, or a practitioner's report that is misleading

to the intended users. It is desirable for the intended users or the engaging party to acknowledge that specifically developed criteria are suitable for the intended users' purposes. The absence of such an acknowledgement may affect what is to be done to assess the suitability of the criteria and the information provided about the criteria in the report.

.A51 Criteria need to be available to the intended users to allow them to understand how the subject matter has been measured or evaluated. Criteria are made available to the intended users in one or more of the following ways:

- a. Publicly
- b. Through inclusion in a clear manner in the presentation of the subject matter
- c. Through inclusion in a clear manner in the practitioner's report
- d. By general understanding, for example, the criterion for measuring time in hours and minutes
- e. Available only to specified parties, for example, terms of a contract or criteria issued by an industry association that are available only to those in the industry

.A52 When criteria are available only to specified parties, sections 205 and 210 require a statement restricting the use of the practitioner's report.⁷

Access to Evidence (Ref: par. .25b[iii])

.A53 The nature of the relationship between the responsible party and, if different, the engaging party, may affect the practitioner's ability to access records, documentation, and other information the practitioner may require as evidence to arrive at the practitioner's opinion, conclusion, or findings. Therefore, the nature of that relationship may be a relevant consideration when determining whether or not to accept the engagement.

.A54 The quantity or quality of available evidence is affected by both of the following:

- a. The characteristics of the subject matter, for example, less objective evidence might be expected when the subject matter is future-oriented, rather than historical.
- b. Other circumstances, such as when evidence that could reasonably be expected to exist is not available, for example, because of the timing of the practitioner's appointment, an entity's document retention policy, inadequate information systems, or a restriction imposed by the responsible party

Acceptance of a Change in the Terms of the Engagement (Ref: par. .29)

.A55 A change in circumstances that affects the requirements of the responsible party or, if different, the engaging party, or a misunderstanding concerning the nature of the engagement originally requested, may be considered reasonable justification for requesting a change in the engagement, for example, from an attestation engagement to a consulting engagement or from an examination engagement to a review engagement. A change may not be considered reasonable if

⁷ Paragraph .64b of section 205 and paragraph .47b of section 210.

it appears that the change relates to information that is incorrect, incomplete, or otherwise unsatisfactory. An example of such a circumstance is a request to change the engagement from an examination to a review to avoid a modified opinion or a disclaimer of opinion in a situation in which the practitioner is unable to obtain sufficient appropriate evidence regarding the subject matter.

.A56 If the practitioner and the engaging party are unable to agree to a change in the terms of the engagement and the practitioner is not permitted to continue the original engagement, the practitioner may withdraw from the engagement when possible under applicable laws and regulations.

Using the Work of an Other Practitioner (Ref: par. .31)

.A57 The practitioner is responsible for (a) the direction, supervision, and performance of the engagement in compliance with professional standards; applicable regulatory and legal requirements; and the firm's policies and procedures and (b) determining whether the practitioner's report that is issued is appropriate in the circumstances. The practitioner may, however, use the work of other practitioners to obtain sufficient appropriate evidence to express an opinion, conclusion, or findings on the subject matter or assertion.

.A58 The engagement partner may decide to assume responsibility for the work of the other practitioner or to make reference to the other practitioner in the practitioner's report. Regardless of whether the engagement partner decides to assume responsibility or make reference, the practitioner is required to communicate clearly with the other practitioner and evaluate whether the other practitioner's work is adequate for the purposes of the engagement. The nature, timing, and extent of this involvement are affected by the practitioner's understanding of the other practitioner, such as previous experience with, or knowledge of, the other practitioner and the degree to which the engagement team and the other practitioner are subject to common quality control policies and procedures.

Quality Control

Assignment of the Engagement Team and the Practitioner's Specialists (Ref: par. .32a–b[i])

.A59 The practitioner may obtain knowledge about the specific subject matter to which the procedures are to be applied through formal or continuing education, practical experience, or consultation with others.

.A60 When considering the appropriate competence and capabilities expected of those involved in the engagement, the engagement partner may take into consideration such matters as their

- understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
- understanding of professional standards and applicable legal and regulatory requirements.
- technical expertise, including expertise with relevant IT and specialized areas relevant to the subject matter.
- knowledge of relevant industries in which the entity operates.

- ability to apply professional judgment.
- understanding of the firm's quality control policies and procedures.

.A61 Some of the attestation work may be performed by a multidisciplinary team that includes one or more practitioner's specialists. For example, in an examination engagement, a practitioner's specialist may be needed to assist the practitioner in obtaining an understanding of the subject matter and other engagement circumstances or in assessing or responding to the risk of material misstatement.

Leadership Responsibilities for Quality in Attestation Engagements (Ref: par. .33c)

.A62 Under QC section 10, the firm's review responsibility policies and procedures are determined on the basis that suitably experienced team members review the work of other team members. The engagement partner may delegate part of the review responsibility to other members of the engagement team, in accordance with the firm's system of quality control.

Engagement Documentation (Ref: par. .34-.35)

.A63 Documentation prepared at the time work is performed or shortly thereafter is likely to be more accurate than documentation prepared at a much later time.

.A64 The completion of the assembly of the final engagement file is an administrative process that does not involve the performance of new procedures or the drawing of new conclusions. Changes may, however, be made to the documentation during the final assembly process if they are administrative in nature. Examples of such changes include the following:

- Deleting or discarding superseded documentation
- Sorting, collating, and cross-referencing working papers
- Signing off on completion checklists relating to the file assembly process
- Documenting evidence that the practitioner has obtained, discussed, and agreed with the relevant members of the engagement team before the date of the practitioner's report
- Adding information received after the date of the report, for example, an original confirmation that was previously faxed.

Engagement Quality Control Review (Ref: par. .42)

.A65 Other matters that may be considered in an engagement quality control review include the following:

- a. The engagement team's evaluation of the firm's independence in relation to the engagement
- b. Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters and the conclusions arising from those consultations

- c. Whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached

Professional Skepticism and Professional Judgment

Professional Skepticism (Ref: par. .43)

.A66 Professional skepticism includes being alert to matters such as the following:

- Evidence that contradicts other evidence obtained
- Information that brings into question the reliability of documents and responses to inquiries to be used as evidence
- Circumstances that may indicate fraud
- Circumstances that suggest the need for procedures in addition to those required by relevant AT-C sections

.A67 Professional skepticism is necessary to the critical assessment of evidence. This includes questioning contradictory evidence and the reliability of documents and responses to inquiries and other information obtained from the appropriate party. It also includes consideration of the sufficiency and appropriateness of evidence obtained in light of the circumstances.

.A68 The practitioner neither assumes that the appropriate party is dishonest nor assumes unquestioned honesty. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism or allow the practitioner to be satisfied with less than sufficient appropriate evidence for the service being provided.

Professional Judgment (Ref: par. .45)

.A69 Professional judgment is essential to the proper conduct of an attestation engagement. This is because interpretation of relevant ethical requirements and relevant AT-C sections and the informed decisions required throughout the engagement cannot be made without the application of relevant knowledge and experience to the facts and circumstances.

.A70 For examination and review engagements, professional judgment is necessary regarding decisions about the following matters:

- Materiality and attestation risk
- The nature, timing, and extent of procedures used to meet the requirements of relevant AT-C sections and gather evidence
- Evaluating whether sufficient appropriate evidence for the service being provided has been obtained and whether more needs to be done to achieve the objectives of this section, section 205, or section 210, and any relevant subject-matter-specific AT-C

sections and thereby the overall objectives of the practitioner

- The evaluation of the responsible party's judgments in applying the criteria
- The drawing of conclusions based on the evidence obtained, for example, assessing the reasonableness of the evaluation or measurement of subject matter or an assertion

.A71 The distinguishing feature of professional judgment expected of a practitioner is that such judgment is exercised based on competencies necessary to achieve reasonable judgments developed by the practitioner through relevant training, knowledge, and experience.

.A72 The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assist the practitioner in making informed and reasonable judgments.

.A73 Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of the attestation standards and measurement or evaluation principles and is appropriate in light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's report.

.A74 The requirement to exercise professional judgment applies throughout the engagement. Professional judgment also needs to be appropriately documented as required by sections 205 and 210.

AT-C Section 200

Level of Service

AT-C Section 205*

Examination Engagements

Introduction

.01 This section contains performance and reporting requirements and application guidance for all examination engagements. The requirements and guidance in this section supplement the requirements and guidance in section 105, *Concepts Common to All Attestation Engagements*.

Effective Date

.02 This section is effective for practitioners' examination reports dated on or after May 1, 2017.

Objectives

- .03** In conducting an examination engagement, the objectives of the practitioner are to
- a. obtain reasonable assurance about whether the subject matter as measured or evaluated against the criteria is free from material misstatement;
 - b. express an opinion in a written report about whether
 - i. the subject matter is in accordance with (or based on) the criteria, in all material respects, or
 - ii. the responsible party's assertion is fairly stated, in all material respects; and
 - c. communicate further as required by relevant AT-C sections.

Definitions

.04 For purposes of this section, the following terms have the meanings attributed as follows:

Appropriateness of evidence. The measure of the quality of evidence, that is, its relevancy and reliability in providing support for the practitioner's opinion.

Modified opinion. A qualified opinion, an adverse opinion, or a disclaimer of opinion.

* This section contains an "AT-C" identifier, instead of an "AT" identifier, to avoid confusion with references to existing "AT" sections, which remain effective through April 2017, in AICPA *Professional Standards*.

Risk of material misstatement. The risk that the subject matter is not in accordance with (or based on) the criteria in all material respects or that the assertion is not fairly stated, in all material respects.

Sufficiency of evidence. The measure of the quantity of evidence. The quantity of the evidence needed is affected by the risks of material misstatement and also by the quality of such evidence.

Test of controls. A procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements in the subject matter.

Requirements

Conduct of an Examination Engagement

.05 In performing an examination engagement, the practitioner should comply with this section, section 105, and any subject-matter AT-C section that is relevant to the engagement. A subject-matter AT-C section is relevant to the engagement when it is in effect, and the circumstances addressed by the AT-C section exist. (Ref: par. .A1)

Preconditions for an Examination Engagement

.06 Section 105 indicates that a practitioner must be independent when performing an attestation engagement in accordance with the attestation standards, unless the practitioner is required by law or regulation to accept the engagement and report on the subject matter or assertion.¹ When the practitioner is not independent but is required by law or regulation to accept the engagement and report on the subject matter or assertion, the practitioner should disclaim an opinion and should specifically state that the practitioner is not independent. The practitioner is neither required to provide, nor precluded from providing, the reasons for the lack of independence; however, if the practitioner chooses to provide the reasons for the lack of independence, the practitioner should include all the reasons therefor.

Agreeing on the Terms of the Engagement

.07 The practitioner should agree upon the terms of the engagement with the engaging party. The agreed-upon terms of the engagement should be specified in sufficient detail in an engagement letter or other suitable form of written agreement. (Ref: par. .A2)

.08 The agreed-upon terms of the engagement should include the following:

- a. The objective and scope of the engagement
- b. The responsibilities of the practitioner (Ref: par. .A3)
- c. A statement that the engagement will be conducted in accordance with attestation

¹ Paragraph .24 of section 105, *Concepts Common to All Attestation Engagements*.

standards established by the American Institute of Certified Public Accountants

- d.* The responsibilities of the responsible party and the responsibilities of the engaging party, if different
- e.* A statement about the inherent limitations of an examination engagement (Ref: par. .A4)
- f.* Identification of the criteria for the measurement, evaluation, or disclosure of the subject matter
- g.* An acknowledgement that the engaging party agrees to provide the practitioner with a representation letter at the conclusion of the engagement

.09 Although an engagement may recur, each engagement is considered a separate engagement. The practitioner should assess whether circumstances require revision to the terms of a preceding engagement. If the practitioner concludes that the terms of the preceding engagement need not be revised for the current engagement, the practitioner should remind the engaging party of the terms of the current engagement, and the reminder should be documented.

Requesting a Written Assertion

.10 The practitioner should request from the responsible party a written assertion about the measurement or evaluation of the subject matter against the criteria. When the engaging party is the responsible party and refuses to provide a written assertion, paragraph .82 requires the practitioner to withdraw from the engagement when withdrawal is possible under applicable law or regulation. When the engaging party is not the responsible party, and the responsible party refuses to provide a written assertion, the practitioner need not withdraw from the engagement. In that case, paragraph .84 requires the practitioner to disclose that refusal in the practitioner's report and restrict the use of the report to the engaging party. (Ref: par. .A5–.A8 and .A97)

Planning and Performing the Engagement

.11 The practitioner should establish an overall engagement strategy that sets the scope, timing, and direction of the engagement and guides the development of the engagement plan. (Ref: par. .A9–.A12)

.12 In establishing the overall engagement strategy, the practitioner should

- a.* identify the characteristics of the engagement that define its scope and ascertain the reporting objectives of the engagement in order to plan the timing of the engagement and the nature of the communications required;
- b.* consider the factors that, in the practitioner's professional judgment, are significant in directing the engagement team's efforts;
- c.* consider the results of preliminary engagement activities, such as client acceptance, and,

when applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and

d. ascertain the nature, timing, and extent of resources necessary to perform the engagement.

.13 The practitioner should develop a plan that includes a description of the following items:

a. The nature, timing, and extent of planned risk assessment procedures

b. The nature, timing, and extent of planned further procedures (see paragraph .21)

c. Other planned procedures that are required to be carried out so that the engagement complies with the attestation standards

Risk Assessment Procedures

.14 The practitioner should obtain an understanding of the subject matter and other engagement circumstances sufficient to (Ref: par. .A13–.A14)

a. enable the practitioner to identify and assess the risks of material misstatement in the subject matter and

b. provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner’s opinion.

.15 In obtaining an understanding of the subject matter in accordance with paragraph .14, the practitioner should obtain an understanding of internal control over the preparation of the subject matter relevant to the engagement. This includes evaluating the design of those controls relevant to the subject matter and determining whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter.

Materiality in Planning and Performing the Engagement

.16 When establishing the overall engagement strategy, the practitioner should consider materiality for the subject matter. (Ref: par. .A15–.A21)

.17 The practitioner should reconsider materiality for the subject matter if the practitioner becomes aware of information during the engagement that would have caused the practitioner to have initially determined a different materiality.

Identifying Risks of Material Misstatement

.18 The practitioner should identify and assess risks of material misstatement as the basis for designing and performing further procedures whose nature, timing, and extent (Ref: par. .A22–.A23)

- a. are responsive to assessed risks of material misstatement and
- b. allow the practitioner to obtain reasonable assurance about whether the subject matter is in accordance with (or based on) the criteria, in all material respects.

Responding to Assessed Risks and Obtaining Evidence

.19 To obtain reasonable assurance, the practitioner should obtain sufficient appropriate evidence to reduce attestation risk to an acceptably low level and thereby enable the practitioner to draw reasonable conclusions on which to base the practitioner's opinion.

.20 The practitioner should design and implement overall responses to address the assessed risks of material misstatement for the subject matter or assertion. (Ref: par. .A24–.A25)

Further Procedures

.21 The practitioner should design and perform further procedures whose nature, timing, and extent are based on, and responsive to, the assessed risks of material misstatement.

.22 In designing and performing further procedures in accordance with paragraph .21, the practitioner should

- a. consider the reasons for the assessment given to the risk of material misstatement, including
 - i. the likelihood of material misstatement due to the particular characteristics of the subject matter and
 - ii. whether the practitioner intends to rely on the operating effectiveness of controls in determining the nature, timing, and extent of other procedures, and
- b. obtain more persuasive evidence the higher the practitioner's assessment of risk.

.23 When designing and performing procedures, the practitioner should consider the relevance and reliability of the information to be used as evidence. If

- a. evidence obtained from one source is inconsistent with that obtained from another,
- b. the practitioner has doubts about the reliability of information to be used as evidence, or
- c. responses to inquiries of the responsible party or others are inconsistent or otherwise unsatisfactory (for example, vague or implausible),

the practitioner should determine what modifications or additions to procedures are necessary to resolve the matter and should consider the effect of the matter, if any, on other aspects of the engagement.

Tests of Controls

.24 The practitioner should design and perform tests of controls to obtain sufficient appropriate evidence about the operating effectiveness of relevant controls if

- a.* the practitioner intends to rely on the operating effectiveness of controls in determining the nature, timing, and extent of other procedures;
- b.* procedures other than tests of controls cannot alone provide sufficient appropriate evidence; or
- c.* the subject matter is internal control.

.25 If the practitioner designed and performed tests of controls to rely on their operating effectiveness and identified deviations in those controls, the practitioner should make specific inquiries and perform other procedures as necessary to understand these matters and their potential consequences. The practitioner also should determine whether

- a.* the tests of controls that have been performed provide an appropriate basis for reliance on the controls,
- b.* additional tests of controls are necessary, or
- c.* the potential risks of misstatement need to be addressed using other procedures.

Procedures Other Than Tests of Controls

.26 Irrespective of the assessed risks of material misstatement, the practitioner should design and perform tests of details or analytical procedures related to the subject matter, except when the subject matter is internal control.

Analytical Procedures Performed in Response to Assessed Risks

.27 When designing and performing analytical procedures in response to assessed risks, the practitioner should (Ref: par. .A26–.A27)

- a.* determine the suitability of particular analytical procedures for the subject matter, taking into account the assessed risks of material misstatement and any related tests of details;
- b.* evaluate the reliability of data from which the practitioner's expectation is developed, taking into account the source, comparability, nature, and relevance of information available, and controls over their preparation; and
- c.* develop an expectation that is sufficiently precise to identify possible material misstatements (taking into account whether analytical procedures are to be performed alone or in combination with tests of details).

.28 If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected amounts or ratios, the practitioner should investigate such differences by

- a. inquiring of the responsible party and obtaining additional evidence relevant to its responses and
- b. performing other procedures as necessary in the circumstances.

Procedures Regarding Estimates

.29 Based on the assessed risks of material misstatement, the practitioner should evaluate whether

- a. the responsible party has appropriately applied the requirements of the criteria relevant to any estimated amounts and
- b. the methods for making estimates are appropriate and have been applied consistently and whether changes, if any, in reported estimates or in the method for making them from the prior period, if applicable, are appropriate in the circumstances.

.30 When responding to an assessed risk of material misstatement related to an estimate, the practitioner should undertake one or more of the following, taking into account the nature of the estimates:

- a. Determine whether events occurring up to the date of the practitioner's report provide evidence regarding the estimate.
- b. Test how the responsible party made the estimate and the data on which it is based. In doing so, the practitioner should evaluate whether the
 - i. method of measurement used is appropriate in the circumstances,
 - ii. assumptions used by the responsible party are reasonable, and
 - iii. data on which the estimate is based are sufficiently reliable for the practitioner's purposes.
- c. Test the operating effectiveness of the controls over how the responsible party made the estimate, together with other appropriate further procedures.
- d. Develop a point estimate or a range to evaluate the responsible party's estimate. For this purpose, if the practitioner
 - i. uses assumptions or methods that differ from those of the responsible party, the practitioner should obtain an understanding of the responsible party's assumptions or methods sufficient to establish that the practitioner's point estimate or range takes into

account relevant variables and to evaluate any significant differences from the responsible party's point estimate.

- ii. concludes that it is appropriate to use a range, the practitioner should narrow the range, based on evidence available, until all outcomes within the range are considered reasonable.

Sampling

.31 If sampling is used, the practitioner should, when designing the sample, consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn. Sampling involves (Ref: par. .A28)

- a. determining a sample size sufficient to reduce sampling risk to an acceptably low level.
- b. selecting items for the sample in such a way that the practitioner can reasonably expect the sample to be representative of the relevant population and likely to provide the practitioner with a reasonable basis for conclusions about the population.
- c. treating a selected item to which the practitioner is unable to apply the designed procedures or suitable alternative procedures as a deviation from the prescribed control in the case of tests of controls or a misstatement in the case of tests of details.
- d. investigating the nature and cause of deviations or misstatements identified and evaluating their possible effect on the purpose of the procedure and on other areas of the engagement.
- e. evaluating the results of the sample, including sampling risk and projecting misstatements found in the sample to the population, and
- f. evaluating whether the use of sampling has provided an appropriate basis for conclusions about the population that has been tested.

Fraud, Laws, and Regulations

.32 The practitioner should

- a. consider whether risk assessment procedures and other procedures related to understanding the subject matter indicate risk of material misstatement due to fraud or noncompliance with laws or regulations.
- b. make inquiries of appropriate parties to determine whether they have knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the subject matter.

- c. evaluate whether there are unusual or unexpected relationships within the subject matter, or between the subject matter and other related information, that indicate risks of material misstatement due to fraud or noncompliance with laws or regulations.
- d. evaluate whether other information obtained indicates risk of material misstatement due to fraud or noncompliance with laws or regulations.

.33 The practitioner should respond appropriately to fraud or suspected fraud and noncompliance or suspected noncompliance with laws or regulations affecting the subject matter that is identified during the engagement. (Ref: par. .A29–.A30)

Revision of Risk Assessment

.34 The practitioner’s assessment of the risks of material misstatement may change during the course of the engagement as additional evidence is obtained. In circumstances in which the practitioner obtains evidence from performing further procedures, or if new information is obtained, either of which is inconsistent with the evidence on which the practitioner originally based the assessment, the practitioner should revise the assessment and modify the planned procedures accordingly. (Ref: par. .A31–.A32)

Evaluating the Reliability of Information Produced by the Entity

.35 When using information produced by the entity, the practitioner should evaluate whether the information is sufficiently reliable for the practitioner’s purposes, including, as necessary, the following: (Ref: par. .A33–.A34)

- a. Obtaining evidence about the accuracy and completeness of the information
- b. Evaluating whether the information is sufficiently precise and detailed for the practitioner’s purposes

Using the Work of a Practitioner’s Specialist

.36 When the practitioner expects to use the work of a practitioner’s specialist, the practitioner should do the following:

- a. Evaluate whether the practitioner’s specialist has the necessary competence, capabilities, and objectivity for the practitioner’s purposes. In the case of a practitioner’s external specialist, the evaluation of objectivity should include inquiry regarding interests and relationships that may create a threat to the objectivity of the practitioner’s specialist. (Ref: par. .A38–.A41)
- b. Obtain a sufficient understanding of the field of expertise of a practitioner’s specialist to enable the practitioner to (Ref: par. .A42)
 - i. determine the nature, scope, and objectives of that specialist’s work for the practitioner’s purposes and

- ii. evaluate the adequacy of that work for the practitioner's purposes.
- c. Agree with the practitioner's specialist regarding (Ref: par. .A43)
 - i. the nature, scope, and objectives of that practitioner's specialist's work;
 - ii. the respective roles and responsibilities of the practitioner and that specialist;
 - iii. the nature, timing, and extent of communication between the practitioner and that specialist, including the form of any report or documentation to be provided by that specialist; and
 - iv. the need for the practitioner's specialist to observe confidentiality requirements.
- d. Evaluate the adequacy of the work of the practitioner's specialist for the practitioner's purposes, including
 - i. the relevance and reasonableness of the findings and conclusions of the practitioner's specialist and their consistency with other evidence;
 - ii. if the work of the practitioner's specialist involves the use of significant assumptions and methods
 - (1) obtaining an understanding of those assumptions and methods and
 - (2) evaluating the relevance and reasonableness of those assumptions and methods in the circumstances, giving consideration to the rationale and support provided by the practitioner's specialist, and in relation to the practitioner's other findings and conclusions;
 - iii. if the work of the practitioner's specialist involves the use of source data that are significant to the work of the practitioner's specialist, the relevance, completeness, and accuracy of that source data.

.37 If the practitioner determines that the work of the practitioner's specialist is not adequate for the practitioner's purposes, the practitioner should

- a. agree with the practitioner's specialist on the nature and extent of further work to be performed by the practitioner's specialist or
- b. perform additional procedures appropriate to the circumstances.

.38 The nature, timing, and extent of the procedures a practitioner performs when the practitioner expects to use the work of a practitioner's specialist will vary depending on the circumstances. In

determining the nature, timing, and extent of those procedures, the practitioner should consider the following: (See section 105.²)

- a. The significance of that specialist's work in the context of the engagement (See also paragraphs .A35–.A36.)
- b. The nature of the matter to which that specialist's work relates
- c. The risks of material misstatement in the matter to which that specialist's work relates
- d. The practitioner's knowledge of, and experience with, previous work performed by that specialist
- e. Whether that specialist is subject to the practitioner's firm's quality control policies and procedures (see also paragraph .A37)

Using the Work of Internal Auditors

.39 When the practitioner expects to use the work of the internal audit function in obtaining evidence or to use internal auditors to provide direct assistance, the practitioner should determine whether the work can be used for purposes of the examination by evaluating (Ref: par. .A44–.A46)

- a. the level of competence of the internal audit function or the individual internal auditors providing direct assistance;
- b. the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal audit function or for internal auditors providing direct assistance, the existence of threats to the objectivity of those internal auditors and the related safeguards applied to reduce or eliminate those threats; and
- c. when using the work of the internal audit function, the application by the internal audit function of a systematic and disciplined approach, including quality control.

.40 When using the work of the internal audit function, the practitioner should perform sufficient procedures on the body of work of the internal audit function as a whole that the practitioner plans to use to determine its adequacy for the purpose of the examination engagement, including reperforming some of the body of work of the internal audit function that the practitioner intends to use in obtaining evidence.

.41 Prior to using internal auditors to provide direct assistance, the practitioner should obtain written acknowledgment from the responsible party that internal auditors providing direct assistance to the practitioner will be allowed to follow the practitioner's instructions, and that the responsible party will not intervene in the work the internal auditor performs for the practitioner.

² Paragraph .32 of section 105.

.42 When using internal auditors to provide direct assistance to the practitioner, the practitioner should direct, supervise, and review the work of the internal auditors.

.43 Because the practitioner has sole responsibility for the opinion expressed, the practitioner should make all significant judgments in the examination engagement, including when to use the work of the internal audit function in obtaining evidence. To prevent undue use of the internal audit function in obtaining evidence, the external auditor should plan to use less of the work of the function and perform more of the work directly:

- a.* The more judgment is involved in
 - i.* planning and performing relevant procedures or
 - ii.* evaluating the evidence obtained
- b.* the higher the assessed risk of material misstatement;
- a.* the less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and
- d.* the lower the level of competence of the internal audit function.

.44 Before the conclusion of the engagement, the practitioner should evaluate whether the use of the work of the internal audit function or the use of internal auditors to provide direct assistance results in the practitioner still being sufficiently involved in the examination given the practitioner's sole responsibility for the opinion expressed.

Evaluating the Results of Procedures

.45 The practitioner should accumulate misstatements identified during the engagement other than those that are clearly trivial. (Ref: par. .A47–.A48)

.46 The practitioner should evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary, attempt to obtain further evidence. The practitioner should consider all relevant evidence, regardless of whether it appears to corroborate or contradict the measurement or evaluation of the subject matter against the criteria. (Ref: par. .A49–.A53)

.47 If the practitioner is unable to obtain necessary further evidence, the practitioner should consider the implications for the practitioner's opinion in paragraphs .68–.84.

Considering Subsequent Events and Subsequently Discovered Facts

.48 The practitioner should inquire whether the responsible party, and if different, the engaging party, is aware of any events subsequent to the period (or point in time) covered by the examination engagement up to the date of the practitioner's report that could have a significant

effect on the subject matter or assertion and should apply other appropriate procedures to obtain evidence regarding such events. If the practitioner becomes aware, through inquiry or otherwise, of such an event, or any other event that is of such a nature and significance that its disclosure is necessary to prevent users of the report from being misled, and information about that event is not adequately disclosed by the responsible party in the subject matter or in its assertion, the practitioner should take appropriate action. (Ref: par. .A54–.A56)

.49 The practitioner has no responsibility to perform any procedures regarding the subject matter or assertion after the date of the practitioner’s report. Nevertheless, the practitioner should respond appropriately to facts that become known to the practitioner after the date of the report that, had they been known to the practitioner at that date, may have caused the practitioner to revise the report. (Ref: par. .A57–.A58)

Written Representations

.50 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. .A59–.A62)

- a.* include the responsible party’s assertion about the subject matter based on the criteria. (Ref: par. .A97)
- b.* state that all relevant matters are reflected in the measurement or evaluation of the subject matter or assertion.
- c.* state that all known matters contradicting the subject matter or assertion and any communication from regulatory agencies or others affecting the subject matter or assertion have been disclosed to the practitioner, including communications received between the end of the period addressed in the written assertion and the date of the practitioner’s report.
- d.* acknowledge responsibility for
 - i.* the subject matter and the assertion;
 - ii.* selecting the criteria, when applicable; and
 - iii.* determining that such criteria are appropriate for the responsible party’s purposes.
- e.* state that any known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the subject matter or assertion have been disclosed to the practitioner. (Ref: par. .A61)
- f.* state that it has provided the practitioner with all relevant information and access.
- g.* if applicable, state that the responsible party believes the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the subject matter. (Ref: par. .A62)

- h.* if applicable, state that significant assumptions used in making any material estimates are reasonable.
- i.* state that the responsible party has disclosed to the practitioner
 - i.* all deficiencies in internal control relevant to the engagement of which the responsible party is aware;
 - ii.* its knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the subject matter; and
 - iii.* other matters as the practitioner deems appropriate.

.51 When the engaging party is not the responsible party, and the responsible party refuses to provide the representations in paragraph .50 in writing, the practitioner should make inquiries of the responsible party about, and seek oral responses to, the matters in paragraph .50. (Ref: par. .A63)

.52 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

- a.* acknowledge that the responsible party is responsible for the subject matter and assertion.
- b.* acknowledge the engaging party's responsibility for selecting the criteria, when applicable.
- c.* acknowledge the engaging party's responsibility for determining that such criteria are appropriate for its purposes.
- d.* state that the engaging party is not aware of any material misstatements in the subject matter or assertion.
- e.* 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 being reported on that would have a material effect on the subject matter or assertion. (Ref: par. .A61)
- f.* address other matters as the practitioner deems appropriate.

.53 When written representations are directly related to matters that are material to the subject matter, the practitioner should

- a.* evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written) and
- b.* consider whether those making the representations can be expected to be well informed on the particular matters.

.54 The date of the written representations should be as of the date of the practitioner's report. The written representations should address the subject matter and periods covered by the practitioner's opinion.

Requested Written Representations Not Provided or Not Reliable

.55 When the engaging party is the responsible party, and one or more of the requested written representations are not provided, or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or the practitioner concludes that the written representations are otherwise not reliable, the practitioner should (Ref: par. .A64)

- a.* discuss the matter with the appropriate party(ies);
- b.* reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations and evidence in general; and
- c.* if any of the matters are not resolved to the practitioner's satisfaction, take appropriate action.

.56 When the engaging party is not the responsible party

- a.* if one or more of the requested representations are not provided in writing by the responsible party, but the practitioner receives satisfactory oral responses to the practitioner's inquiries performed in accordance with paragraph .51 sufficient to enable the practitioner to conclude that the practitioner has sufficient appropriate evidence to form an opinion about the subject matter, the practitioner's report should contain a separate paragraph that restricts the use of the report to the engaging party. (Paragraphs .65–.66 contain requirements for the contents of such a paragraph.) (Ref: par. .A63 and .A65)
- b.* if one or more of the requested representations are provided neither in writing nor orally from the responsible party in accordance with paragraph .51, a scope limitation exists, and the practitioner should determine the effect on the report, or the practitioner should withdraw from the engagement.(Ref: par. .A66)

Other Information

.57 If prior to or after the release of the practitioner's report on subject matter or an assertion, the practitioner is willing to permit the inclusion of the report in a document that contains the subject matter or assertion and other information, the practitioner should read the other information to identify material inconsistencies, if any, with the subject matter, assertion, or the report. If upon reading the other information, in the practitioner's professional judgment (Ref: par. .A67–.A68)

- a.* a material inconsistency between that other information and the subject matter, assertion,

or the report exists or

- b.* a material misstatement of fact exists in the other information, the subject matter, assertion, or the report

the practitioner should discuss the matter with the responsible party and take further action as appropriate.

Description of Criteria

.58 The practitioner should evaluate whether the written description of the subject matter or assertion adequately refers to or describes the criteria. (Ref: par. .A69–.A70)

Forming the Opinion

.59 The practitioner should form an opinion about whether the subject matter is in accordance with (or based on) the criteria, in all material respects, or the assertion is fairly stated, in all material respects. In forming that opinion, the practitioner should evaluate

- a.* the practitioner’s conclusion regarding the sufficiency and appropriateness of evidence obtained and (Ref: par. .A71)
- b.* whether uncorrected misstatements are material, individually or in the aggregate. (Ref: par. .A72)

.60 The practitioner should evaluate, based on the evidence obtained, whether the presentation of the subject matter or assertion is misleading within the context of the engagement. (Ref: par. .A73–.A74)

Preparing the Practitioner’s Report

.61 The practitioner’s report should be in writing. (Ref: par. .A75–.A76)

.62 A practitioner should report on a written assertion or should report directly on the subject matter. If the practitioner is reporting on the assertion, the assertion should be bound with or accompany the practitioner’s report, or the assertion should be clearly stated in the report. (Ref: par. .A77)

Content of the Practitioner’s Report

.63 The practitioner’s report should include the following, unless the practitioner is disclaiming an opinion, in which case, items .63*f*, and .63*g* should be omitted:

- a.* A title that includes the word *independent*. (Ref: par. .A78)
- b.* An appropriate addressee as required by the circumstances of the engagement.

- c.* An identification or description of the subject matter or assertion being reported on, including the point in time or period of time to which the measurement or evaluation of the subject matter or assertion relates.
- d.* An identification of the criteria against which the subject matter was measured or evaluated. (Ref: par. .A79)
- e.* A statement that identifies (Ref: par. .A80–.A81)
 - i.* the responsible party and its responsibility for the subject matter in accordance with (or based on) the criteria or for its assertion, and
 - ii.* the practitioner’s responsibility to express an opinion on the subject matter or assertion, based on the practitioner’s examination.
- f.* A statement that
 - i.* the practitioner’s examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii.* those standards require that the practitioner plan and perform the examination to obtain reasonable assurance about whether
 - (1) the subject matter is in accordance with (or based on) the criteria, in all material respects (or equivalent language regarding the subject matter and criteria, such as the language used in the examples in paragraph .A82) or
 - (2) the responsible party’s assertion is fairly stated, in all material respects.
 - iii.* the practitioner believes the evidence the practitioner obtained is sufficient and appropriate to provide a reasonable basis for the practitioner’s opinion.
- g.* A description of the nature of an examination engagement. (Ref: par. .A83–.A85)
- h.* A statement that describes significant inherent limitations, if any, associated with the measurement or evaluation of the subject matter against the criteria. (Ref: par. .A86)
- i.* The practitioner’s opinion about whether (Ref: par. .A87–.A90)
 - i.* the subject matter is in accordance with (or based on) the criteria, in all material respects or
 - ii.* the responsible party’s assertion is fairly stated, in all material respects.
- j.* The manual or printed signature of the practitioner’s firm.
- k.* The city and state where the practitioner practices. (Ref: par. .A91)

- l.* 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
 - i* the attestation documentation has been reviewed,
 - ii.* if applicable, the written presentation of the subject matter has been prepared, and
 - iii.* the responsible party has provided a written assertion or, in the circumstances described in paragraph .A66, an oral assertion.)

Restricted Use Paragraph

.64 In the following circumstances, the practitioner's report should include an alert, in a separate paragraph, that restricts the use of the report: (Ref: par. .A94–.A97)

- a.* The practitioner determines that the criteria used to evaluate the subject matter are appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria.
- b.* The criteria used to evaluate the subject matter are available only to specified parties.
- c.* The engaging party is not the responsible party, and the responsible party does not provide the written representations required by paragraph .50, but does provide oral responses to the practitioner's inquiries about the matters in paragraph .50, as provided for in paragraph .51 and .56*a*. In this case, the use of the practitioner's report should be restricted to the engaging party. (Ref: par. .A97)

.65 The alert should

- a.* state that the practitioner's report is intended solely for the information and use of the specified parties,
- b.* identify the specified parties for whom use is intended, and (Ref: par. .A98)
- c.* state that the report is not intended to be, and should not be, used by anyone other than the specified parties. (Ref: par. .A99–.A101)

.66 When the engagement is also performed in accordance with *Government Auditing Standards*, the alert that restricts the use of the practitioner's report should include the following information, rather than the information required by paragraph .65:

- a.* A description of the purpose of the report

- b.* A statement that the report is not suitable for any other purpose

Reference to the Practitioner's Specialist

.67 The practitioner should not refer to the work of a practitioner's specialist in the practitioner's report containing an unmodified opinion. (Ref: par. .A102)

Modified Opinions

.68 The practitioner should modify the opinion when either of the following circumstances exist and, in the practitioner's professional judgment, the effect of the matter is or may be material: (Ref: par. .A103–.A104)

- a.* The practitioner is unable to obtain sufficient appropriate evidence to conclude that the subject matter is in accordance with (or based on) the criteria, in all material respects.
- b.* The practitioner concludes, based on evidence obtained, that the subject matter is not in accordance with (or based on) the criteria, in all material respects.

.69 When the practitioner modifies the opinion, the practitioner should include a separate paragraph in the practitioner's report that provides a description of the matter(s) giving rise to the modification.

.70 The practitioner should express a qualified opinion when (Ref: par. .A105–.A109)

- a.* the practitioner, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive to the subject matter or
- b.* the practitioner is unable to obtain sufficient appropriate evidence on which to base the opinion, but the practitioner concludes that the possible effects on the subject matter of undetected misstatements, if any, could be material, but not pervasive.

.71 When the practitioner expresses a qualified opinion due to a material misstatement of the subject matter, the practitioner should state that, in the practitioner's opinion, except for the effects of the matter(s) giving rise to the modification, the subject matter is presented in accordance with (or based on) the criteria, in all material respects. When the modification arises from an inability to obtain sufficient appropriate evidence, the practitioner should use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion.

.72 The practitioner should express an adverse opinion when the practitioner, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the subject matter.

.73 When the practitioner expresses an adverse opinion, the practitioner should state that, in the practitioner's opinion, because of the significance of the matter(s) giving rise to the modification, the subject matter is not presented in accordance with (or based on) the criteria, in all material respects.

.74 The practitioner should disclaim an opinion when the practitioner is unable to obtain sufficient appropriate evidence on which to base the opinion, and the practitioner concludes that the possible effects on the subject matter of undetected misstatements, if any, could be both material and pervasive. (Ref: par. .A110)

.75 When the practitioner disclaims an opinion due to an inability to obtain sufficient appropriate evidence, the practitioner's report should state that

- a. because of the significance of the matter(s) giving rise to the modification, the practitioner has not been able to obtain sufficient appropriate evidence to provide a basis for an examination opinion and
- b. accordingly, the practitioner does not express an opinion on the subject matter.

Description of the Practitioner's Responsibility When the Practitioner Expresses a Qualified or an Adverse Opinion

.76 When the practitioner expresses a qualified or an adverse opinion, the practitioner should amend the description of the practitioner's responsibility to state that the practitioner believes that the evidence the practitioner has obtained is sufficient and appropriate to provide a basis for the practitioner's modified opinion.

Description of the Practitioner's Responsibility When the Practitioner Disclaims an Opinion

.77 When the practitioner disclaims an opinion due to an inability to obtain sufficient appropriate evidence, the practitioner should amend the practitioner's report to state that the practitioner was engaged to examine the subject matter (or assertion). The practitioner should also amend the description of the practitioner's responsibility and the description of an examination to state only the following: "Our responsibility is to express an opinion on the subject matter (or assertion) based on conducting the examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Because of the limitation on the scope of our examination discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether the subject matter is in accordance with (or based on) the criteria, in all material respects."

.78 If the practitioner expresses a modified opinion because of a scope limitation but is also aware of a matter(s) that causes the subject matter to be materially misstated, the practitioner should include in the practitioner's report a clear description of both the scope limitation and the matter(s) that causes the subject matter to be materially misstated.

.79 If the practitioner has concluded that conditions exist that, individually or in combination, result in one or more material misstatements based on the criteria, the practitioner should modify the opinion and express a qualified or adverse opinion directly on the subject matter, not on the assertion, even when the assertion acknowledges the misstatement.

.80 The practitioner's opinion on the subject matter or assertion should be clearly separated from any paragraphs emphasizing matters related to the subject matter or any other reporting responsibilities.

.81 When the opinion is modified, reference to an external specialist is permitted when such reference is relevant to an understanding of the modification to the practitioner's opinion. The practitioner should indicate in the practitioner's report that such reference does not reduce the practitioner's responsibility for that opinion.

Responsible Party Refuses to Provide a Written Assertion

.82 If the engaging party is the responsible party and refuses to provide the practitioner with a written assertion as required by paragraph .10, the practitioner should withdraw from the engagement when withdrawal is possible under applicable law or regulation.

.83 If law or regulation does not allow the practitioner to withdraw from the engagement, the practitioner should disclaim an opinion.

.84 When the engaging party is not the responsible party and the responsible party refuses to provide the practitioner with a written assertion, the practitioner may report on the subject matter but should disclose in the practitioner's report the responsible party's refusal to provide a written assertion and should restrict the use of the practitioner's report to the engaging party. (Ref: par. .A111–.A113)

Communication Responsibilities

.85 The practitioner should communicate to the responsible party known and suspected fraud and noncompliance with laws or regulations, uncorrected misstatements, and, when relevant to the subject matter, internal control deficiencies identified during the engagement. When the engaging party is not the responsible party, the practitioner should also communicate this information to the engaging party. (Ref: par. .A114)

.86 If the practitioner has identified or suspects noncompliance with laws or regulations that are not relevant to the subject matter, the practitioner should determine whether the practitioner has a responsibility to report the identified or suspected noncompliance to parties other than the responsible party and the engaging party (if different). (Ref: par. .A115–.A116)

Documentation

.87 The practitioner should prepare engagement documentation that is sufficient to determine (Ref: par. .A117–.A120)

- a. the nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including
 - i. the identifying characteristics of the specific items or matters tested;
 - ii. who performed the engagement work and the date such work was completed;
 - iii. the discussions with the responsible party or others about findings or issues that, in the practitioner's professional judgment, are significant, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place;
 - iv. when the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations; or that the written representations are otherwise not reliable, the matters in paragraph .55;
 - v. when the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .50, the oral responses from the responsible party to the practitioner's inquiries regarding the matters in paragraph .50, in accordance with paragraph .51; and
 - vi. who reviewed the engagement work performed and the date and extent of such review.
- b. the results of the procedures performed and the evidence obtained.

.88 If the practitioner identified information that is inconsistent with the practitioner's final conclusion regarding a significant finding or issue, the practitioner should document how the practitioner addressed the inconsistency.

.89 If, in circumstances such as those described in paragraph .49, the practitioner performs new or additional procedures or draws new conclusions after the date of the practitioner's report, the practitioner should document

- a. the circumstances encountered;
- b. the new or additional procedures performed, evidence obtained, and conclusions reached and their effect on the report; and
- c. when and by whom the resulting changes to the documentation were made and reviewed.

Application and Other Explanatory Material

Conduct of an Examination Engagement (Ref: par. .05)

.A1 For example, if a practitioner were examining prospective financial information, section 105, this section, and section 305, *Prospective Financial Information*, would be relevant.

Agreeing on the Terms of the Engagement (Ref: par. .07, .08b, and .08e)

.A2 It is in the interests of both the engaging party and the practitioner to document the agreed-upon terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The form and content of the engagement letter or other suitable form of written agreement will vary with the engagement circumstances.

.A3 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:

- a.* A statement that an examination is designed to obtain reasonable assurance about whether the subject matter as measured or evaluated against the criteria is free from material misstatement
- b.* A statement that the objective of an examination is the expression of an opinion in a written practitioner's report about whether the subject matter is in accordance with (or based on) the criteria, in all material respects, or whether the responsible party's assertion is fairly stated, in all material respects

.A4 If relevant, a statement about the inherent limitations of an examination engagement may indicate that "because of the inherent limitations of an 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."

Requesting a Written Assertion (Ref: par. .10)

.A5 The language of the responsible party's written assertion in paragraph .10 may need to be tailored to reflect the nature of the subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph .10 include the following:

- The entity maintained effective internal control over the subject matter based on the criteria.
- The subject matter is presented in accordance with (or based on) the criteria.
- The subject matter achieved the objectives, for example, when the objectives are the criteria.
- The subject matter is presented fairly, based on the criteria.

.A6 Situations may arise in which the current responsible party was not present during some or all of the period covered by the practitioner's report. Such persons may contend that they are not in a position to provide a written assertion that covers the entire period because they were not in place during some or all of the period. This fact, however, does not diminish such persons' responsibilities for the subject matter as a whole. Accordingly, the requirement for the practitioner to request a written assertion from the responsible party that covers the entire relevant period(s) still applies.

.A7 Paragraph .50a requires the practitioner to request a written representation from the responsible party that is the same as the responsible party's assertion. If the responsible party provides the practitioner with the written representation in paragraph .50a, the practitioner need not request a separate written assertion unless a separate written assertion is called for by the engagement circumstances.

.A8 A practitioner may also be engaged to assist the responsible party in measuring or evaluating the subject matter against the criteria in connection with the responsible party providing a written assertion. Regardless of the procedures performed by the practitioner, the responsible party is required to accept responsibility for its assertion and the subject matter and may not base its assertion solely on the practitioner's procedures.³

Planning and Performing the Engagement (Ref: par. .11)

.A9 Planning involves the engagement partner and other key members of the engagement team and may involve the practitioner's specialists in developing

- an overall strategy for the scope, timing, and conduct of the engagement and
- an engagement plan, consisting of a detailed approach for the nature, timing, and extent of procedures to be performed.

Adequate planning helps the practitioner to devote appropriate attention to important areas of the engagement, identify potential problems on a timely basis, and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner. Adequate planning also assists the practitioner in properly assigning work to engagement team members and facilitates the direction, supervision, and review of their work. Further, it assists, when applicable, the coordination of work performed by other practitioners and practitioner's specialists. The nature and extent of planning activities will vary with the engagement circumstances, for example, the complexity of the assessment or evaluation of the subject matter and the practitioner's previous experience with it. Examples of relevant matters that may be considered include the following:

- The characteristics of the engagement that define its scope, including the terms of the engagement, the characteristics of the underlying subject matter, and the criteria
- The expected timing and the nature of the communications required
- The results of preliminary engagement activities, such as client acceptance, and, when

³ The "Nonattest Services" interpretation (ET sec. 1.295), of the AICPA Code of Professional Conduct addresses the practitioner's provision of nonattest services for an attest client.

applicable, whether knowledge gained on other engagements performed by the engagement partner for the appropriate party(ies) is relevant

- The engagement process, including possible sources of evidence, and choices among alternative measurement or evaluation methods
- The practitioner's understanding of the appropriate party(ies) and its (their) environment, including the risks that the subject matter may be materially misstated
- Identification of intended users and their information needs and consideration of materiality and the components of attestation risk
- The risk of fraud relevant to the engagement
- The effect on the engagement of using the internal audit function

.A10 The practitioner may decide to discuss elements of planning with the appropriate party(ies) to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned procedures with the work of the responsible party's personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the practitioner's responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is needed to avoid compromising the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the responsible party may compromise the effectiveness of the engagement by making the procedures too predictable.

.A11 Planning is not a discrete phase but, rather, a cumulative and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or evidence obtained, the practitioner may need to revise the overall strategy and engagement plan and, thereby, the resulting nature, timing, and extent of planned procedures.

.A12 In smaller or less complex engagements, the entire engagement may be conducted by a very small engagement team, possibly involving the engagement partner (who may be a sole practitioner) working without any other engagement team members. With a smaller team, coordination of, and communication among, team members is easier. In such cases, establishing the overall engagement strategy need not be a complex or time-consuming exercise; it varies according to the size of the entity, complexity of the engagement, and size of the engagement team.

Risk Assessment Procedures (Ref: par. .14)

.A13 Obtaining an understanding of the subject matter and other engagement circumstances provides the practitioner with a frame of reference for exercising professional judgment throughout the engagement, for example, when

- considering the characteristics of the subject matter;
- assessing the suitability of criteria;

- considering the factors that, in the practitioner's professional judgment, are significant in directing the engagement team's efforts, including situations in which special consideration may be necessary (for example, when there is a need for specialized skills or the work of a specialist);
- establishing and evaluating the continued appropriateness of quantitative materiality levels (when appropriate) and considering qualitative materiality factors;
- developing expectations when performing analytical procedures;
- designing and performing procedures;
- evaluating evidence, including the reasonableness of the written representations received by the practitioner.

.A14 In assessing inherent risk, the practitioner may consider factors relevant to examination engagements, such as the following:

- The complexity of the subject matter or assertion
- The length of time during which the entity has had experience with the subject matter or assertion
- Prior experience with the entity's assessment of the subject matter or assertion

Materiality in Planning and Performing the Engagement (Ref: par. .16)

.A15 Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the practitioner's professional judgment.

.A16 Professional judgments about materiality are made in light of surrounding circumstances, but they are not affected by the level of assurance, that is, for the same intended users, materiality for an examination engagement is the same as it is for a review engagement because materiality is based on the information needs of intended users and not the level of assurance.

.A17 In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of intended users that are made based on the subject matter. The practitioner's consideration of materiality is a matter of professional judgment and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users

- a. have a reasonable knowledge of the subject matter and a willingness to study the subject matter with reasonable diligence.

- b. understand that the subject matter is measured or evaluated and examined to appropriate levels of materiality and have an understanding of any materiality concepts included in the criteria.
- c. understand any inherent uncertainties involved in measuring or evaluating the subject matter.
- d. make reasonable decisions on the basis of the subject matter taken as a whole.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

.A18 Qualitative factors may include the following:

- The interaction between, and relative importance of, various aspects of the subject matter, such as numerous performance indicators
- The wording chosen with respect to subject matter that is expressed in narrative form, for example, the wording chosen does not omit or distort the information
- The characteristics of the presentation adopted for the subject matter when the criteria allow for variations in that presentation
- The nature of a misstatement, for example, the nature of observed deviations in the operation of a control when the responsible party asserts that the control is effective
- Whether a misstatement affects compliance with laws or regulations
- In the case of periodic reporting on a subject matter, whether the effect of an adjustment affects past or current information about the subject matter or is likely to affect future information about the subject matter
- Whether a misstatement is the result of an intentional act or is unintentional
- Whether a misstatement is significant with regard to the practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the subject matter
- Whether a misstatement relates to the relationship between the responsible party, and if different, the engaging party or its relationship with other parties

.A19 Quantitative factors relate to the magnitude of misstatements relative to reported amounts for those aspects of the subject matter, if any, that are

- expressed numerically or
- otherwise related to numerical values, for example, the number of observed deviations in the operation of a control when the examination involves the effectiveness of the control.

.A20 When quantitative factors are applicable, planning the engagement solely to detect

individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the subject matter to be materially misstated. Applying materiality to elements of the subject matter ordinarily is not a simple mechanical calculation but involves the exercise of professional judgment. It is affected by the practitioner's understanding of the subject matter and the responsible party, updated during the performance of the risk assessment procedures, and consideration of the nature and extent of misstatements identified in previous attestation engagements.

.A21 The criteria may discuss the concept of materiality in the context of the preparation and presentation of the subject matter and thereby provide a frame of reference for the practitioner in considering materiality for the engagement. Although criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs .A15–.A20. If the criteria do not include a discussion of the concept of materiality, these paragraphs provide the practitioner with a frame of reference.

Identifying Risks of Material Misstatement (Ref: par. .18)

.A22 Most of the practitioner's work in forming an opinion consists of obtaining and evaluating evidence. Procedures to obtain evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry.

.A23 In some cases, a subject-matter-specific section may include requirements that affect the nature, timing, and extent of procedures. For example, a subject-matter-specific section may describe the nature or extent of particular procedures to be performed in a particular type of engagement. Even in such cases, determining the exact nature, timing, and extent of procedures is a matter of professional judgment and will vary from one engagement to the next.

Responding to Assessed Risks and Obtaining Evidence (Ref: par. .20)

.A24 Overall responses to address the assessed risks of material misstatement of the subject matter or assertion may include

- emphasizing to the engagement team the need to maintain professional skepticism;
- assigning more experienced staff or those with specialized skills or using specialists;
- providing more supervision;
- incorporating additional elements of unpredictability in the selection of further procedures to be performed; and
- making changes to the nature, timing, or extent of procedures (for example, performing procedures at period-end instead of at an interim date or modifying the nature of procedures to obtain more persuasive evidence).

.A25 The assessment of the risks of material misstatement of the subject matter or assertion is affected by the practitioner's understanding of the control environment. An effective control environment may allow the practitioner to have more confidence in internal control and the reliability of evidence generated internally within the entity and, thus, for example, may allow the practitioner to conduct some procedures at an interim date, rather than at the period-end. Deficiencies in the control environment, however, have the opposite effect, for example, the practitioner may respond to an ineffective control environment by

- conducting more procedures as of the period-end, rather than at an interim date,
- obtaining more extensive evidence from procedures other than tests of controls, and
- increasing the number of locations to be included in the examination scope.

Further Procedures

Analytical Procedures Performed in Response to Assessed Risks (Ref: par. .27)

.A26 An understanding of the purposes of analytical procedures and the limitations of those procedures is important. Accordingly, the identification of the relationships and types of data used, as well as conclusions reached when recorded amounts are compared to expectations, requires professional judgment by the practitioner.

.A27 Analytical procedures involve comparisons of expectations developed by the practitioner to recorded amounts or ratios developed from recorded amounts. The practitioner develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the practitioner's understanding of the subject matter; the practices used by the responsible party to measure, recognize, and record the subject matter; and, if applicable, the industry in which the entity operates.

Sampling (Ref: par. .31)

.A28 The AICPA Audit Guide *Audit Sampling* provides guidance that may be useful to a practitioner who has decided to use sampling in performing attestation procedures.

Fraud, Laws, and Regulations (Ref: par. .33)

.A29 In responding to fraud or suspected fraud identified during the engagement, it may be appropriate, unless prohibited by law, regulation, or ethics standards, for the practitioner to, for example,

- discuss the matter with the appropriate party(ies).
- request that the responsible party consult with an appropriately qualified third party, such as the entity's legal counsel or a regulator.

- consider the implications of the matter in relation to other aspects of the engagement, including the practitioner's risk assessment and the reliability of written representations from the responsible party.
- obtain legal advice about the consequences of different courses of action.
- communicate with third parties (for example, a regulator).
- withdraw from the engagement.

.A30 The actions noted in paragraph .A29 also may be appropriate in responding to noncompliance or suspected noncompliance with laws or regulations identified during the engagement. It may be appropriate to describe the matter in a separate paragraph in the practitioner's report, unless the practitioner

- a.* is precluded by the responsible party from obtaining sufficient appropriate evidence to evaluate whether noncompliance that may be material to the subject matter has, or is likely to have, occurred, in which case, paragraphs .68*a* and .77 apply, or
- b.* concludes that the noncompliance results in a material misstatement of the subject matter, in which case, paragraph .68*b* applies.

Revision of Risk Assessment (Ref: par. .34)

.A31 Information may come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to perform additional procedures. Such procedures may include asking the responsible party to examine the matter identified by the practitioner and to make adjustments to the subject matter if appropriate.

.A32 The practitioner may become aware of a matter(s) that causes the practitioner to believe the subject matter may be materially misstated, for example, when performing analytical procedures the practitioner identifies a fluctuation or relationship that is inconsistent with other relevant information or that differs significantly from expectations.

Evaluating the Reliability of Information Produced by the Entity (Ref: par. .35)

.A33 Reliable information is sufficiently accurate and complete.

.A34 Obtaining evidence about the accuracy and completeness of information produced by the entity may be accomplished concurrently with the actual procedure applied to the information when obtaining such evidence is an integral part of the procedure itself. In other situations, the practitioner may have obtained evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the practitioner may determine that additional procedures are needed.

Using the Work of a Practitioner's Specialist

Integrating the Work of a Practitioner's Specialist (Ref: par. .38a)

.A35 Examination engagements may be performed on a wide range of subject matters that require specialized skills and knowledge beyond those possessed by the practitioner and for which the work of a practitioner's specialist is used. In some situations, the practitioner's specialist will be consulted to provide advice on an individual matter, but the greater the significance of the work of the practitioner's specialist in the context of the engagement, the more likely it is that the specialist will work as part of a multidisciplinary team comprising subject-matter specialists and other attestation personnel. The more that specialist's work is integrated in nature, timing, and extent with the overall work effort, the more important effective two-way communication is between the practitioner's specialist and other attestation personnel. Effective two-way communication facilitates the proper integration of the specialist's work with the work of others on the engagement.

.A36 When the work of a practitioner's specialist is to be used, it may be appropriate to perform some of the procedures required by paragraph .36 at the engagement acceptance or continuance stage. This is particularly so when the work of the practitioner's specialist is to be used in the early stages of the engagement, for example, during initial planning and risk assessment.

The Practitioner's Firm's Quality Control Policies and Procedures (Ref: par. .38e)

.A37 Engagement teams are entitled to rely on their own firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that reliance will vary with the circumstances and may affect the nature, timing, and extent of the practitioner's procedures with respect to matters, such as the following:

- Competence and capabilities, through recruitment and training programs
- The practitioner's evaluation of the objectivity of the practitioner's internal specialist (The practitioner's internal specialists are subject to relevant ethical requirements, including those pertaining to independence.)
- The practitioner's evaluation of the adequacy of the practitioner's internal specialist's work (For example, the firm's training programs may provide the practitioner's internal specialists with an appropriate understanding of the interrelationship of their expertise with the evidence-gathering process. Reliance on such training and other firm processes, such as protocols for scoping the work of the practitioner's internal specialists, may affect the nature, timing, and extent of the practitioner's procedures to evaluate the adequacy of the practitioner's specialist's work.)
- Adherence to regulatory and legal requirements through monitoring processes
- Agreement with the practitioner's specialist

Such reliance does not reduce the practitioner's responsibility to meet the requirements of this

section.

The Competence, Capabilities, and Objectivity of a Practitioner's Specialist (Ref: par. .36a)

.A38 Information regarding the competence, capabilities, and objectivity of a practitioner's specialist may come from a variety of sources, such as the following:

- Personal experience with previous work of that specialist
- Discussions with that specialist
- Discussions with other practitioners or others who are familiar with that specialist's work
- Knowledge of that specialist's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition
- Published papers or books written by that specialist
- The firm's quality control policies and procedures

.A39 Although a practitioner's specialist does not require the same proficiency as the practitioner in performing all aspects of an examination engagement, a practitioner's specialist whose work is used may need a sufficient understanding of relevant AT-C sections to enable that specialist to relate the work assigned to that specialist to the engagement objective.

.A40 The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the practitioner's specialist and the significance of the specialist's work in the context of the engagement. There may be some circumstances in which safeguards cannot reduce threats to an acceptable level, for example, if in an examination engagement a practitioner's specialist is an individual who has played a significant role in measuring, evaluating, or disclosing the subject matter.

.A41 When evaluating the objectivity of a practitioner's external specialist, it may be relevant to

- inquire of the appropriate party(ies) about any known interests or relationships that the appropriate party(ies) has with the practitioner's external specialist that may affect that specialist's objectivity.
- discuss with that specialist any applicable safeguards, including any professional requirements that apply to that specialist, and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that may be relevant to discuss with the practitioner's specialist include
 - financial interests.

- business and personal relationships.
- provision of other services by the specialist, including by the organization in the case of an external specialist that is an organization.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external specialist about any interests or relationships with the appropriate party(ies) of which that specialist is aware.

Obtaining an Understanding of the Field of Expertise of a Practitioner's Specialist (Ref: par. .36b)

.A42 Aspects of a practitioner's specialist's field of expertise relevant to the practitioner's understanding may include the following:

- Whether that specialist's field has areas of specialty within it that are relevant to the engagement
- Whether any professional or other standards and regulatory or legal requirements apply
- What assumptions and methods, including models, when applicable, are used by the practitioner's specialist and whether they are generally accepted within that specialist's field and appropriate in the circumstances of the engagement
- The nature of internal and external data or information the practitioner's specialist uses

Agreement With a Practitioner's Specialist (Ref: par. .36c)

.A43 The matters noted in paragraph .A37 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's specialist, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and a practitioner's external specialist is often in the form of an engagement letter.

Using the Work of Internal Auditors (Ref: par. .39)

.A44 Activities similar to those performed by an internal audit function may be conducted by functions with other titles within an entity. Some or all of the activities of an internal audit function may also be outsourced to a third-party service provider. Neither the title of the function nor whether it is performed by the entity or a third-party service provider are sole determinants of whether or not the practitioner can use the work of internal auditors. Rather, it is the nature of the activities, the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors, the competence of the internal auditors, and the systematic and disciplined approach of the function that are relevant. References in this section to the work of the internal audit function include relevant activities of other functions or third-party providers that have these characteristics.

.A45 A practitioner planning to use the work of the internal audit function to obtain evidence

may find it effective and efficient to discuss the planned use of the work with the internal audit function as a basis for coordinating activities.

.A46 The practitioner has sole responsibility for the opinion expressed, and that responsibility is not reduced by the practitioner's use of the work of internal auditors on the engagement. The objectivity and competence of internal auditors are important in determining whether to use their work and, if so, the nature and extent of the use of their work. However, a high degree of objectivity cannot compensate for a low degree of competence, nor can a high degree of competence compensate for a low degree of objectivity. Additionally, neither a high level of competence nor strong support for the objectivity of the internal auditors compensates for the lack of a systematic and disciplined approach when using the work of the internal audit function.

Evaluating the Results of Procedures (Ref: par. .45–.46)

.A47 Uncorrected misstatements are accumulated during the engagement for the purpose of evaluating whether, individually or in aggregate, they are material when forming the practitioner's opinion. (See also paragraph .59b)

.A48 "Clearly trivial" is not another expression for "not material." Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality and will be matters that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature, or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

.A49 Sufficient appropriate evidence is necessary to support the practitioner's opinion and report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect its relevance to the current engagement) or a firm's quality control procedures for client acceptance and continuance. Evidence may come from sources inside and outside the appropriate party(ies). Also, information that may be used as evidence may have been prepared by a specialist employed or engaged by the appropriate party(ies). *Evidence* comprises both information that supports and corroborates aspects of the subject matter and any information that contradicts aspects of the subject matter. In addition, in some cases, the absence of information (for example, refusal by the appropriate party(ies) to provide a requested representation) is considered by the practitioner and, therefore, also constitutes evidence.

.A50 The sufficiency and appropriateness of evidence are interrelated. Sufficiency of evidence is the measure of the quantity of evidence. The quantity of the evidence needed is affected by the risks of material misstatement and also by the quality of such evidence.

.A51 *Appropriateness of evidence* is the measure of the quality of evidence, that is, its relevance and reliability in providing support for the practitioner's opinion. The reliability of evidence is influenced by its source and nature and is dependent on the individual circumstances under which it is obtained. Generalizations about the reliability of various kinds of evidence can be

made; however, such generalizations are subject to important exceptions. Even when evidence is obtained from sources external to the responsible party, circumstances may exist that could affect its reliability. For example, evidence obtained from an independent external source may not be reliable if the source is not knowledgeable. Recognizing that exceptions may exist, the following generalizations about the reliability of evidence may be useful:

- Evidence is more reliable when it is obtained from independent sources outside the appropriate party(ies).
- Evidence that is generated internally is more reliable when the related controls are effective.
- Evidence obtained directly by the practitioner (for example, observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, a contemporaneously written record of a meeting is ordinarily more reliable than a subsequent oral representation of what was discussed).
- Evidence provided by original documents is more reliable than evidence provided by photocopies, facsimiles, or documents that have been filmed, digitized, or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.

.A52 Evidence obtained from different sources or of a different nature ordinarily provides more assurance than evidence from items considered individually. In addition, obtaining evidence from different sources or of a different nature may indicate that an individual item of evidence is not reliable. For example, corroborating information obtained from a source independent of the responsible party may increase the assurance the practitioner obtains from a representation from the responsible party. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the practitioner determines what additional procedures are necessary to resolve the inconsistency.

.A53 Whether sufficient appropriate evidence has been obtained on which to base the practitioner's opinion is a matter of professional judgment.

Considering Subsequent Events and Subsequently Discovered Facts (Ref: par. .48–.49)

.A54 For certain subject-matter AT-C sections, specific subsequent events requirements and related application guidance have been developed for engagement performance and reporting.

.A55 Procedures that a practitioner may perform to identify subsequent events include inquiring about and considering information

- contained in relevant reports issued during the subsequent period by internal auditors, other practitioners, or regulatory agencies.
- obtained through other professional engagements for that entity.

.A56 If the responsible party refuses to disclose a subsequent event for which disclosure is necessary to prevent users of the practitioner's report from being misled, appropriate actions the practitioner may take include

- disclosing the event in the practitioner's report and modifying the practitioner's opinion.
- withdrawing from the engagement.

.A57 Subsequent to the date of the practitioner's report, the practitioner may become aware of facts that, had they been known to the practitioner at that date, may have caused the practitioner to revise the report. In such circumstances, the practitioner undertakes to determine whether the facts existed at the date of the report and, if so, whether persons who would attach importance to these facts are currently using, or are likely to use, the report and related subject matter or assertion. This may include discussing the matter with the appropriate party(ies) and requesting the appropriate party(ies)'s cooperation in whatever investigation or further action that may be necessary. The specific actions to be taken in a particular case by the appropriate party(ies) and the practitioner may vary with the circumstances. Consideration may be given to, among other things, the time elapsed since the date of the report and whether issuance of a subsequent report is imminent. The practitioner may need to perform additional procedures deemed necessary to determine whether the subject matter or assertion needs revision and whether the previously issued report continues to be appropriate.

.A58 Depending on the circumstances, the practitioner may determine that notification of the situation by the appropriate party(ies) to persons who would attach importance to the facts and who are currently using, or are likely to use, the practitioner's report is necessary. This may be the case, for example, when

- a. the report is not to be relied upon because the subject matter or assertion needs revision or the practitioner is unable to determine whether revision is necessary, and
- b. issuance of a subsequent report is not imminent.

If the appropriate party(ies) failed to take the necessary steps to prevent reliance on the report, the practitioner's course of action depends upon the practitioner's legal and ethical rights and obligations. Consequently, the practitioner may consider it appropriate to seek legal advice prior to making any disclosure of the situation. Disclosure of the situation directly by the practitioner may include a description of the nature of the matter and its effect on the subject matter or assertion and the report, avoiding comments concerning the conduct or motives of any person.

Written Representations (Ref: par. .50–.51, .52e, and .56a)

.A59 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(ies), which may vary by entity, reflecting influences such as size and ownership characteristics.

.A60 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.

.A61 A discussion of what is considered a material effect on the subject matter or assertion may be included explicitly in the representation letter in qualitative or quantitative terms.

.A62 A summary of uncorrected misstatements ordinarily is included in or attached to the written representation.

.A63 Certain subject-matter AT-C sections do not permit the practitioner to perform the alternative procedures described in paragraphs .51 and .56*a* (making inquiries of the responsible party and restricting the use of the practitioner's report).

Requested Written Representations Not Provided or Not Reliable (Ref: par. .55–.56)

.A64 In the situation discussed in paragraph .55, the refusal to furnish such evidence in the form of written representations constitutes a limitation on the scope of an examination sufficient to preclude an unmodified opinion and may be sufficient to cause the practitioner to withdraw from the engagement.

.A65 Even when the responsible party provides oral responses to the matters in paragraph .50, the practitioner may find it appropriate to consider whether there are significant concerns about the competence, integrity, ethical values, or diligence of those providing the oral responses or whether the oral responses are otherwise not reliable and the potential effect, if any, on the practitioner's report.

.A66 Paragraph .10 provides an exception to the requirement for a written assertion when the engaging party is not the responsible party. Nonetheless, because the assertion is the representation called for by paragraph .50*a*, application of paragraph .56*a* requires the practitioner to obtain an oral assertion when a written assertion is not obtained. Paragraph .56*b* applies when the responsible party provides neither a written nor an oral assertion.

Other Information (Ref: par. .57)

.A67 Further actions that may be appropriate if the practitioner identifies a material inconsistency or becomes aware of a material misstatement of fact include, for example, the

following:

- Requesting the appropriate party(ies) to consult with a qualified third party, such as the appropriate party(ies)'s legal counsel
- Obtaining legal advice about the consequences of different courses of action
- If required or permissible, communicating with third parties (for example, a regulator)
- Describing the material inconsistency in the practitioner's report
- Withdrawing from the engagement, when withdrawal is possible under applicable laws and regulations

.A68 Other information does not include information contained on the appropriate party(ies)'s website. Websites are a means of distributing information and are not, themselves, documents for the purposes of paragraph .57.

Description of Criteria (Ref: par. .58)

.A69 The description of the criteria on which the subject matter or assertion is based is particularly important when there are significant differences among various criteria regarding how particular matters may be treated in the subject matter.

.A70 A description of the criteria that states that the subject matter is prepared in accordance with (or based on) particular criteria is appropriate only if the subject matter complies with all relevant requirements of those criteria that are effective.

Forming the Opinion (Ref: par. .59–.60)

.A71 The practitioner's professional judgment regarding what constitutes sufficient appropriate evidence is influenced by such factors as the following:

- The significance of a potential misstatement and the likelihood that it will have a material effect, individually or aggregated with other potential misstatements, on the subject matter or assertion
- The effectiveness of the responsible party's responses to address the known risks
- The experience gained during previous examination or review engagements with respect to similar potential misstatements
- The results of procedures performed, including whether such procedures identified specific misstatements
- The source and reliability of the available information

- The persuasiveness of the evidence
- The practitioner's understanding of the responsible party and its environment

.A72 An examination engagement is a cumulative and iterative process. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to change the nature, timing, or extent of other planned procedures. Information that differs significantly from the information on which the risk assessments and planned procedures were based may come to the practitioner's attention, for example

- the extent of the misstatements that the practitioner detects is greater than expected. (This may alter the practitioner's professional judgment about the reliability of particular sources of information.)
- the practitioner may become aware of discrepancies in relevant information or conflicting or missing evidence.
- procedures performed toward the end of the engagement may indicate a previously unrecognized risk of material misstatement. In such circumstances, the practitioner may need to reevaluate the planned procedures.

.A73 In making the evaluation required by paragraph .60, the practitioner may consider whether additional disclosures are necessary to describe the subject matter, assertion, or criteria. Additional disclosures may, for example, include

- the measurement or evaluation methods used when the criteria allow for choice among methods;
- significant interpretations made in applying the criteria in the engagement circumstances;
- subsequent events, depending on their nature and significance; and
- whether there have been any changes in the measurement or evaluation methods used.

.A74 Paragraph .60 does not require the practitioner to determine whether the presentation discloses all matters related to the subject matter, assertion, or criteria or all matters intended users may consider in making decisions based on the presentation.

Preparing the Practitioner's Report (Ref: par. .61–.62)

.A75 Oral and other forms of expressing an opinion can be misunderstood without the support of a written practitioner's report. For this reason, the practitioner may not report orally or by use of symbols (such as a web seal) under the attestation standards without also providing a written report that is readily available whenever the oral report is provided or the symbol is used. For

example, a symbol could be hyperlinked to a written report on the Internet.

.A76 This section does not require a standardized format for reporting on all examination engagements. Instead, it identifies the basic elements that the practitioner’s report is to include. The report is tailored to the specific engagement circumstances. The practitioner may use headings, separate paragraphs, paragraph numbers, typographical devices (for example, the bolding of text), and other mechanisms to enhance the clarity and readability of the report.

.A77 All of the following reporting options are available to a practitioner, except when the circumstances described in paragraph .79 exist:

<i>The practitioner’s report may state that the practitioner examined</i>	And	<i>expresses an opinion on</i>
the subject matter		the subject matter
the responsible party’s assertion		the responsible party’s assertion
the responsible party’s assertion		the subject matter

Content of the Practitioner’s Report

Title (Ref: par. .63a)

.A78 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.

Criteria (Ref: par. .63d)

.A79 The practitioner’s report may include the criteria or refer to them if they are included in the subject matter presentation, in the assertion, 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.

Relevant Responsibilities (Ref: par. .63e)

.A80 Identifying relative responsibilities informs the intended users that the responsible party is responsible for the subject matter, and the practitioner’s role is to independently express an opinion about it.

.A81 The practitioner may wish to expand the discussion of the responsible party’s responsibility, for example, to indicate that the responsible party is responsible for the preparation and presentation of the subject matter in accordance with (or based on) the criteria, including the design, implementation, and maintenance of internal control to prevent, or detect and correct, misstatement of the subject matter, due to fraud or error.

Statement About the Subject Matter and the Criteria (Ref: par. .63f[ii]1)

.A82 The language in paragraph .63f(ii)(1) may need to be tailored to reflect the nature of the subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph .63f(ii)(1) include, “to obtain reasonable assurance about whether

- the entity maintained effective internal control over the subject matter, based on the criteria, in all material respects.”
- the subject matter is presented in accordance with (or based on) the criteria, in all material respects.”
- the subject matter achieves the objectives, in all material respects.” (For example, when the objectives are the criteria.)
- the subject matter 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 relates to whether the measurement, recognition, presentation, and disclosure of all material items in the presentation of the subject matter achieve fair presentation.)

Description of the Nature of an Examination Engagement (Ref: par. .63g)

.A83 A description of the nature of an examination engagement may state, for example, that

- an examination involves performing procedures to obtain evidence about the subject matter and that 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, whether due to fraud or error.
- an examination also involves examining evidence about the subject matter or assertion.
- in making an assessment of the risks of material misstatement, the practitioner considered and obtained an understanding of internal control relevant to the 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.

.A84 The practitioner may decide to more fully describe the practitioner’s responsibility, for example, to

- perform procedures to obtain evidence based on the practitioner’s assessment of the risk of material misstatement about whether the subject matter is presented in accordance with (or based on) the criteria.
- obtain an understanding of internal control over the subject matter.

.A85 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:

- Whether such a description is likely to overshadow the practitioner’s overall opinion or cause report users to misunderstand the opinion
- 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 an 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)
- Whether the parties have an understanding of the nature and subject matter of the engagement and experience in using the information in such reports
- Whether the practitioner’s procedures performed directly relate to the subject matter of the engagement

The addition of procedures performed and the results thereof in a separate section of an examination report may increase the potential for the report to be misunderstood when taken out of the context of the knowledge of the requesting parties. This potential for an increase in the risk of misunderstanding may lead the practitioner to add a restricted-use paragraph to the practitioner’s report.

Inherent Limitations (Ref: par. .63h)

.A86 In some cases, identification of specific inherent limitations is required by an AT-C section. For example, section 305, *Prospective Financial Information*, requires that the practitioner’s report include a statement indicating that the prospective results may not be achieved.⁴ To implement that requirement, the illustrative practitioner’s examination report on a forecast in section 305 states, “There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.”⁵ When not explicitly required by an AT-C section, identification in the report of inherent limitations is based on the practitioner’s judgment

Opinion (Ref: par. .63i)

.A87 The practitioner’s opinion can be worded either in terms of the subject matter and the criteria (for example, “In our opinion, the schedule of investment returns of XYZ Company for the year ended December 31, 20XX, is in accordance with [or based on] the ABC criteria set

⁴ Paragraph .32i of section 305, *Prospective Financial Information*.

⁵ Example 1 in paragraph .A43 of section 305.

forth in Note 1, in all material respects.”), or in terms of an assertion made by the responsible party (for example, “In our opinion, management’s assertion that the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX, is presented in accordance with [or based on] the ABC criteria set forth in Note 1 is fairly stated, in all material respects.”).

.A88 The language of the practitioner’s opinion in paragraph .63i(i) may need to be tailored to reflect the nature of the subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph .63i(i) include the following:

- The entity maintained effective internal control over the subject matter, in all material respects, based on the criteria.
- The subject matter is presented in accordance with (or based on) the criteria, in all material respects.
- The subject matter achieved the objectives, in all material respects (when the objectives are the criteria).
- The subject matter is free from material misstatement based on the criteria.
- The subject matter 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 relates to whether the measurement, recognition, presentation, and disclosure of all material items in the presentation of the subject matter achieve fair presentation.)

.A89 A single practitioner’s report may cover more than one aspect of a subject matter or an assertion about the subject matter. When that is the case, the report may contain separate opinions or conclusions on each aspect of the subject matter or assertion (for example, examination level related to some aspects or assertions and review level related to others, or an unmodified opinion on some aspects or assertions and a modified opinion on others).

.A90 A practitioner may report on subject matter or an assertion 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, in the written assertion, or in the report, even if the subject matter for the preceding date or period is not presented.

Location (Ref: par. .63k)

.A91 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.

Date (Ref: par. .631)

.A92 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 and the report.

.A93 Because the practitioner expresses an opinion on the subject matter or assertion and the subject matter or assertion 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 or assertion comprises, including any related notes, when applicable, have been prepared, and the responsible party has accepted responsibility for them.

Restricted-Use Paragraph (Ref: par. .10, .50, .64, and .65b–c)

.A94 A practitioner’s report for which the conditions in paragraph .64 do not apply need not include an alert that restricts its use. However, nothing in the attestation standards precludes a practitioner from including such an alert in any practitioner’s report or other practitioner’s written communication.

.A95 A practitioner’s report that is required by paragraph .64 to include an alert that restricts the use of the report may be included in a document that also contains a practitioner’s report that is for general use. In such circumstances, the use of the general use report is not affected.

.A96 A practitioner may also issue a single combined practitioner’s report that includes (a) a practitioner’s report that is required by paragraph .64 to include an alert that restricts its use, and (b) a report that is for general use. If these two types of reports are clearly differentiated within the combined report, such as through the use of appropriate headings, the alert that restricts the use of the report may be limited to the report required by paragraph .64 to include such an alert. In such circumstances, the use of the general use report is not affected.

.A97 The written representations required by paragraph .50 include an assertion. If the engaging party is not the responsible party and the responsible party provides an oral assertion rather than a written assertion, paragraph .64c calls for an alert that restricts the use of the practitioner’s report to the engaging party.

.A98 The practitioner may identify the specified parties by naming them, referring to a list of those parties, or identifying the class of parties, for example, “all customers of XYZ Company during some or all of the period January 1, 20XX to December 31, 20XX.” The method of identifying the specified parties is determined by the practitioner.

.A99 In some cases, the criteria used to measure or evaluate the subject matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular criteria designed for regulatory purposes. To avoid misunderstandings, the practitioner alerts users of the practitioner’s report to this fact and, therefore, that the report is intended solely for the information and use of the specified parties.

.A100 The alert that restricts the use of the practitioner's report is designed to avoid misunderstandings related to the use of the report, particularly if the report is taken out of the context in which the report is intended to be used. A practitioner may consider informing the responsible party and, if different, the engaging party or other specified parties that the report is not intended for distribution to parties other than those specified in the report. The practitioner may, in connection with establishing the terms of the engagement, reach an understanding with the responsible party or, if different, the engaging party, that the intended use of the report will be restricted and may obtain the responsible party's agreement that the responsible party and specified parties will not distribute such report to parties other than those identified therein. A practitioner is not responsible for controlling, and cannot control, distribution of the report after its release.

.A101 In some cases, a restricted-use practitioner's report filed with regulatory agencies is required by law or regulation to be made available to the public as a matter of public record. Also, a regulatory agency, as part of its oversight responsibility for an entity, may require access to a restricted-use report in which it is not named as a specified party.

Reference to the Practitioner's Specialist (Ref: par. .67)

.A102 The practitioner has sole responsibility for the opinion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's specialist.

Modified Opinions (Ref: par. .68, .70, and .74)

.A103 The three types of modified opinions are a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon the following:

- a. The nature of the matter giving rise to the modification (that is, whether the subject matter of the engagement is in accordance with [or based on] the criteria, in all material respects or, in the case of an inability to obtain sufficient appropriate evidence, may be materially misstated)
- b. The practitioner's professional judgment about the pervasiveness of the effects or possible effects of the matter on the subject matter of the engagement

.A104 A practitioner may express an unmodified opinion only when the engagement has been conducted in accordance with the attestation standards. Such standards will not have been complied with if the practitioner has been unable to apply all the procedures that the practitioner considers necessary in the circumstances.

.A105 The term *pervasive* describes the effects on the subject matter of misstatements or the possible effects on the subject matter of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the subject matter are those that, in the practitioner's professional judgment

- a. are not confined to specific aspects of the subject matter;
- b. if so confined, represent or could represent a substantial proportion of the subject matter; or
- c. in relation to disclosures, are fundamental to the intended users' understanding of the subject matter.

.A106 The following table illustrates how the practitioner's professional judgment about the nature of the matter giving rise to the modification and the pervasiveness of its effects or possible effects on the subject matter affects the type of practitioner's report to be issued.

Nature of Matter Giving Rise to the Modification	Practitioner's Professional Judgment About the Pervasiveness of the Effects or Possible Effects on the Subject Matter	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
Scope limitation. An inability to obtain sufficient appropriate evidence.	Qualified opinion	Disclaimer of opinion
Subject matter is materially misstated.	Qualified opinion	Adverse opinion

.A107 A scope limitation may arise from the following:

- a. Circumstances beyond the control of the appropriate party(ies). For example, documentation that the practitioner considers necessary to inspect may have been accidentally destroyed.
- b. Circumstances relating to the nature or timing of the practitioner's work. For example, a physical process that the practitioner considers necessary to observe may have occurred before the practitioner's engagement.
- c. Limitations imposed by the responsible party or the engaging party on the practitioner that, for example, may prevent the practitioner from performing a procedure that the practitioner considers necessary in the circumstances. Limitations of this kind may have other implications for the engagement, such as for the practitioner's consideration of risks of material misstatement and engagement acceptance and continuance.

.A108 The inability to obtain written representations from the responsible party ordinarily would result in a scope limitation. However, when the engaging party is not the responsible party, paragraph .51 enables the practitioner to make inquiries of the responsible party and if the responsible party's oral responses enable the practitioner to conclude that the practitioner has sufficient appropriate evidence to form an opinion about the subject matter, paragraph .56a indicates this would not cause a scope limitation. Further, paragraph .56a requires that the practitioner's report in these circumstances contain an alert paragraph that restricts the use of the

report to the engaging party.

.A109 The practitioner's decision to express a qualified opinion, disclaim an opinion, or withdraw from the engagement because of a scope limitation depends on an assessment of the effect of the omitted procedure(s) on the practitioner's ability to express an opinion. This assessment will be affected by the nature and magnitude of the potential effects of the matters in question and by their significance to the subject matter or assertion.

.A110 An inability to perform a specific procedure does not constitute a scope limitation if the practitioner is able to obtain sufficient appropriate evidence by performing alternative procedures.

Responsible Party Refuses to Provide a Written Assertion (Ref: par. .84)

.A111 The following is an example of the disclosure required by paragraph .84:

Attestation standards established by the American Institute of Certified Public Accountants require that we request a written statement from [*identify the responsible party*] stating that [*identify the subject matter*] that we examined has been accurately measured or evaluated. We requested that [*identify the responsible party*] provide such a written statement but [*identify the responsible party*] refused to do so.

.A112 The practitioner's report discussed in paragraph .84 is appropriate only when the engagement is to report on the subject matter; it is not appropriate for a report on an assertion. When reporting on an assertion, the practitioner is required to obtain a written assertion from the responsible party.

.A113 If the responsible party's failure to provide the practitioner with written representations causes the practitioner to conclude that a scope limitation exists and, thus, qualify or disclaim an opinion, the practitioner need not restrict the use of the practitioner's report but is required by paragraph .69 to describe the matter that gave rise to the modified opinion. Paragraph .A94 notes, however, that the practitioner is not precluded from restricting the use of any report.

Communication Responsibilities (Ref: par. .85–.86)

.A114 Other matters that may be appropriate to communicate to the responsible party or, if different, the engaging party, include bias in the measurement, evaluation, or disclosure of the subject matter. (Ref: par. .85)

.A115 The practitioner's professional duty to maintain the confidentiality of client information may preclude the practitioner from reporting identified or suspected noncompliance with laws or regulations that is not relevant to the subject matter to a party other than the responsible party and, if different, the engaging party. However, the practitioner's legal responsibilities may vary by jurisdiction, and in certain circumstances, the duty of confidentiality may be overridden by statute, the law, or courts of law. In the following circumstances, a duty to notify parties outside the entity may exist:

- In response to a court order
- In compliance with requirements for examinations of entities that receive financial assistance from a government agency

Because potential conflicts with the practitioner's ethical and legal obligations for confidentiality may be complex, the practitioner may consult with legal counsel before discussing noncompliance with parties outside the entity. (Ref: par. .86)

.A116 If the practitioner is performing an examination engagement in accordance with *Government Auditing Standards*, the practitioner may be required to report on compliance with laws, regulations, and provisions of contracts or grant agreements as part of the examination. The practitioner also may be required to communicate instances of noncompliance to appropriate oversight bodies and funding agencies. (Ref: par. .86)

Documentation (Ref: par. .87)

.A117 Documentation includes a record of the practitioner's reasoning on all significant findings or issues that require the exercise of professional judgment and related conclusions. The existence of difficult questions of principle or professional judgment calls for the documentation to include the relevant facts that were known by the practitioner at the time the conclusion was reached.

.A118 It is neither necessary nor practical to document every matter considered, or professional judgment made, during an engagement. Further, it is unnecessary for the practitioner to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included in the engagement file. Similarly, the practitioner need not include in the engagement file superseded drafts of working papers, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

.A119 In applying professional judgment to assess the extent of documentation to be prepared and retained, the practitioner may consider what is necessary to provide an experienced practitioner, having no previous connection with the engagement, with an understanding of the work performed and the basis of the principal decisions made.

.A120 Documentation ordinarily includes a record of

- issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
- conclusions on compliance with independence requirements that apply to the engagement and any relevant discussions with the firm that support these conclusions.
- conclusions reached regarding the acceptance and continuance of client relationships

and attestation engagements.

- the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

.A121

Exhibit—Illustrative Practitioner’s Examination Reports

The illustrative practitioner’s examination reports in this exhibit meet the applicable reporting requirements in paragraphs .61–.84. A practitioner may use alternative language in drafting an examination report, provided that the language meets the applicable requirements in paragraphs .61–.84. The criteria for evaluating the subject matter in examples 1–3 and 5–6 have been determined by the practitioner to be suitable and available to all users of the practitioner’s report; therefore, these practitioner’s reports may be for general use. The criteria for evaluating the subject matter in example 4 are suitable but available only to specified parties; therefore, use of this practitioner’s report is restricted to the specified parties who either participated in the establishment of the criteria or can be presumed to have an adequate understanding of the criteria. (See paragraph .65 for the information to be included in a separate paragraph of the report that contains an alert that restricts the use of the report and paragraph .66 for the content of that paragraph when the engagement is also performed in accordance with *Government Auditing Standards*.)

Example 1: Practitioner’s Examination Report on Subject Matter; Unmodified Opinion

The following is an illustrative practitioner’s report for an examination engagement in which the practitioner has examined the subject matter and is reporting on the subject matter.

Independent Accountant’s Report

[*Appropriate Addressee*]

We have examined [*identify the subject matter, 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 subject matter, for example, presenting the schedule of investment returns*] in accordance with (or based on) [*identify the criteria, for example, the ABC criteria set forth in Note 1*]. Our responsibility is to express an opinion on [*identify the subject matter, for example, the schedule of investment returns*] based on our examination.

Our 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, for example, the schedule of investment returns*] is in accordance with (or based on) the criteria, in all material respects. An examination involves performing procedures to obtain evidence about [*identify the subject matter, 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 subject matter, for example, the schedule of investment 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 subject matter against the criteria.]

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

In our opinion, *[identify the subject matter, 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 presented in accordance with (or based on) *[identify the criteria, for example, the ABC criteria set forth in Note 1]*, in all material respects.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 2: Practitioner's Examination Report on an Assertion; Unmodified Opinion

The following is an illustrative practitioner's report for an examination engagement in which the practitioner has examined the responsible party's assertion and is reporting on that assertion.

Independent Accountant's Report

[Appropriate Addressee]

We have examined management of XYZ Company's assertion that *[identify the assertion, including the subject matter and the criteria, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX, is presented in accordance with [or based on] the ABC criteria set forth in Note 1]*. XYZ Company's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion based on our examination.

Our 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 management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, 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 subject matter against the criteria.]

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

In our opinion, management's assertion that *[identify the assertion, including the subject*

matter and the criteria, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX, is presented in accordance with [or based on] the ABC criteria set forth in Note 1] is fairly stated, in all material respects.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 3: Practitioner's Examination Report in Which the Practitioner Examines Management's Assertion and Reports Directly on the Subject Matter; Unmodified Opinion

The following is an illustrative practitioner's report for an examination engagement in which the practitioner has examined the responsible party's assertion and is reporting directly on the subject matter.

Independent Accountant's Report

[Appropriate Addressee]

We have examined management of XYZ Company's assertion that *[identify the assertion, including the subject matter and the criteria, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX, is presented in accordance with [or based on] the ABC criteria set forth in Note 1]*. XYZ Company's management is responsible for its assertion. Our responsibility is to express an opinion on *[identify the subject matter, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX]*, based on our examination.

Our 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, for example, the schedule of investment returns]* is presented in accordance with (or based on) the criteria, in all material respects. An examination involves performing procedures to obtain evidence about *[identify the subject matter, 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 subject matter, for example, the schedule of investment 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 subject matter against the criteria.]

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

In our opinion, *[identify the subject matter, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX or the schedule of investment returns referred to above]* is presented in accordance with (or based on) *[identify the criteria, for example, the ABC criteria set forth in Note 1]*, in all

material respects.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 4: Practitioner's Examination Report on Subject Matter; Unmodified Opinion; Use of the Practitioner's Report Is Restricted to Specified Parties

The following is an illustrative practitioner's report for an examination engagement in which the criteria are suitable, but available only to specified parties; therefore, use of the report is restricted to the specified parties who either participated in the establishment of the criteria or can be presumed to have an adequate understanding of the criteria. The practitioner has examined the subject matter and is reporting on the subject matter.

Independent Accountant's Report

[Appropriate Addressee]

We have examined *[identify the subject matter, for example, the number of widgets sold by XYZ Company to ABC Company (or tons of coal mined by XYZ Company... or gallons of gas sold in the United States by XYZ Company to ABC Company) during the year ended December 31, 20XX,]* to determine whether it has been calculated in accordance with (or based on) *[identify the criteria, for example, the agreement dated (date) between ABC Company and XYZ Company, as further described in Note 1].* XYZ Company's management is responsible for *[identify the subject matter, for example, calculating the number of widgets sold].* Our responsibility is to express an opinion on *[identify the subject matter, for example, the number of widgets sold by XYZ Company to ABC Company (or tons of coal mined by XYZ Company... or gallons of gas sold in the United States by XYZ Company to ABC Company) during the year ended December 31, 20XX,]* based on our examination.

Our 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, for example, the number of widgets sold, tons of coal mined, or gallons of gas sold]* is in accordance with (or based on) the criteria, in all material respects. An examination involves performing procedures to obtain evidence about *[identify the subject matter, for example, the number of widgets sold, tons of coal mined, or gallons of gas sold].* 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 subject matter, for example, the number of widgets sold by XYZ Company to ABC Company (or tons of coal mined by XYZ Company, or gallons of gas sold in the United States by XYZ Company to ABC Company)],* 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 subject matter against the criteria.]

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

In our opinion, *[identify the subject matter, for example, the number of widgets sold by XYZ Company to ABC Company (or tons of coal mined by XYZ Company, or gallons of gas sold in the United States by XYZ Company to ABC Company) during the year ended December 31, 20XX,]* has been calculated in accordance with (or based on) *[identify the criteria, for example, the agreement dated (date) between ABC Company and XYZ Company, as further described in Note 1]*, in all material respects.

This report is intended solely for the information and use of *[identify the specified parties, for example, ABC Company and XYZ Company]*, and is not intended to be and should not be used by anyone other than the specified parties.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 5: Practitioner's Examination Report on Subject Matter; Qualified Opinion

The following is an illustrative practitioner's report for an examination engagement in which the practitioner expresses a qualified opinion because conditions exist that, individually or in combination, result in one or more material, but not pervasive, misstatements of the subject matter based on (or in certain engagements, deviations from, exceptions to, or instances of noncompliance with) the criteria. The practitioner has examined the subject matter and is reporting on the subject matter. Paragraph .79 states, "If the practitioner has concluded that conditions exist that, individually or in combination, result in one or more material misstatements based on the criteria, the practitioner should modify the opinion and should express a qualified or adverse opinion directly on the subject matter, not on the assertion, even when the assertion acknowledges the misstatement."

Independent Accountant's Report

[Appropriate Addressee]

We have examined *[identify the subject matter, 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 subject matter, for example, presenting the schedule of investment returns]* in accordance with (or based on) *[identify the criteria, for example, the ABC criteria set forth in Note 1]*. Our responsibility is to express an opinion on *[identify the subject matter, for example, the schedule of investment returns]* based on our examination.

Our 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, for example, the schedule of investment returns]* is presented in accordance with (or based on) the criteria, in all material respects. An examination

involves performing procedures to obtain evidence about *[identify the subject matter, 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 subject matter, for example, the schedule of investment 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 subject matter against the criteria.]

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

Our examination disclosed *[describe condition(s) that, individually or in the aggregate, resulted in a material misstatement or deviation from the criteria]*.

In our opinion, except for the material misstatement *[or deviation from the criteria]* described in the preceding paragraph, *[identify the subject matter, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX, or the schedule of investment returns referred to above]*, is presented in accordance with (or based on) *[identify the criteria, for example, the ABC criteria set forth in Note 1]*, in all material respects.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 6: Practitioner's Examination Report; Practitioner Engaged to Report on Subject Matter; Disclaimer of Opinion Because of Scope Limitation

The following is an illustrative practitioner's report for an examination engagement in which the practitioner was engaged to report on the subject matter but is disclaiming an opinion because of a scope limitation. (See paragraphs .68–.84 and the related application guidance for reporting guidance when a scope limitation exists.)

Independent Accountant's Report

[Appropriate Addressee]

We were engaged to examine *[identify the subject matter, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX]*, in accordance with (or based on) *[identify the criteria, for example, the ABC criteria set forth in Note 1]*. XYZ Company's management is responsible for *[identify the subject matter, for example, presenting the schedule of investment returns]*. Our responsibility is to express an opinion on *[identify the subject matter, for example, the schedule of investment returns]* based on conducting the examination in accordance with attestation standards established by the American Institute of Certified Public Accountants.

[The first sentence of the practitioner's report has been revised to state, "We were engaged to examine" rather than "We have examined." The standards under which the

practitioner conducts an examination have been identified at the end of the second sentence of the report, rather than in a separate sentence in the second paragraph of the report.

[The report should omit statements

- indicating what those standards require of the practitioner.*
- indicating that the practitioner believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the practitioner's opinion.*
- describing the nature of an examination engagement.]*

[Include a paragraph to describe scope limitations.]

Because of the limitation on the scope of our examination discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether *[identify the subject matter, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX, or the schedule of investment returns referred to above]* is in accordance with (or based on) *[identify the criteria, for example, the ABC criteria set forth in Note I]*, in all material respects.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

AT-C Section 210*

Review Engagements

Introduction

.01 This section contains performance and reporting requirements and application guidance for all review engagements. The requirements and guidance in this section supplement the requirements and guidance in section 105, *Concepts Common to All Attestation Engagements*.

Effective Date

.02 This section is effective for practitioners' review reports dated on or after May 1, 2017.

Objectives

.03 In conducting a review engagement, the objectives of the practitioner are to

- a. obtain limited assurance about whether any material modifications should be made to the subject matter in order for it to be in accordance with (or based on) the criteria;
- b. express a conclusion in a written report about whether the practitioner is aware of any material modifications that should be made to
 - i. the subject matter in order for it to be in accordance with (or based on) the criteria or
 - ii. the responsible party's assertion in order for it to be fairly stated; and
- c. communicate further as required by relevant AT-C sections.

Definitions

.04 For purposes of this section, the following terms have the meanings attributed as follows:

Appropriateness of review evidence. The measure of the quality of review evidence, that is, its relevancy and reliability in providing support for the practitioner's conclusion.

Review evidence. Information used by the practitioner in obtaining limited assurance on which the practitioner's review report is based.

Sufficiency of review evidence. The measure of the quantity of review evidence. The quantity of the review evidence needed is affected by the risks of material misstatement and also by the quality of such evidence.

Requirements

Conduct of a Review Engagement

.05 In performing a review engagement, the practitioner should comply with this section, section 105, and any subject-matter AT-C section that is relevant to the engagement. A subject-matter AT-C section is relevant to the engagement when it is in effect, and the circumstances addressed by the AT-C section

* This section contains an "AT-C" identifier, instead of an "AT" identifier, to avoid confusion with references to existing "AT" sections, which remain effective through April 2017, in AICPA *Professional Standards*.

exist. (Ref: par. .A1)

.06 The practitioner should consider whether the nature of review procedures would enable the practitioner to obtain sufficient appropriate review evidence to obtain limited assurance. (Ref: par. .A2)

.07 A practitioner should not perform a review of (Ref: par. .A2)

- a. prospective financial information,
- b. internal control, or
- c. compliance with requirements of specified laws, regulations, rules, contracts, or grants.

Agreeing on the Terms of the Engagement

.08 The practitioner should agree upon the terms of the engagement with the engaging party. The agreed-upon terms of the engagement should be specified in sufficient detail in an engagement letter or other suitable form of written agreement. (Ref: par. .A3)

.09 The agreed-upon terms of the engagement should include the following:

- a. The objective and scope of the engagement
- b. The responsibilities of the practitioner (Ref: par. .A4)
- c. A statement that the engagement will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants
- d. The responsibilities of the responsible party and the responsibilities of the engaging party, if different
- e. A statement that a review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether the subject matter is in accordance with (or based on) the criteria, in all material respects, or the assertion is fairly stated, in all material respects, in order to express an opinion, and that, accordingly, the practitioner will not express such an opinion
- f. Identification of the criteria for the measurement, evaluation, or disclosure of the subject matter
- g. An acknowledgement that the engaging party agrees to provide the practitioner with a representation letter at the conclusion of the engagement

.10 Although an engagement may recur, each engagement is considered a separate engagement. The practitioner should assess whether circumstances require revision to the terms of a preceding engagement. If the practitioner concludes that the terms of the preceding engagement need not be revised for the current engagement, the practitioner should remind the engaging party of the terms of the current engagement, and the reminder should be documented.

Requesting a Written Assertion

.11 The practitioner should request from the responsible party a written assertion about the measurement or evaluation of the subject matter against the criteria. When the engaging party is the responsible party and refuses to provide a written assertion, paragraph .59 requires the practitioner to withdraw from the engagement, when withdrawal is possible under applicable laws and regulations. When the engaging party is not the responsible party, and the responsible party refuses to provide a written assertion, the practitioner need not withdraw from the engagement. In that case, paragraph .60 requires the practitioner

to disclose that refusal in the practitioner's report and restrict the use of the report to the engaging party. (Ref: par. .A5–.A8 and .A76)

Planning and Performing the Engagement

.12 The practitioner should set the scope, timing, and direction of the engagement and determine the nature, timing, and extent of the planned procedures that are required to be carried out in order to achieve the objectives of the engagement. (Ref: par. .A9–.A12)

.13 The practitioner should obtain an understanding of the subject matter and other engagement circumstances sufficient to provide a basis for designing and performing procedures in order to achieve the objectives of the engagement. That understanding should include the practices used to measure, recognize, and record the subject matter. (Ref: par. .A13)

Materiality in Planning and Performing the Engagement

.14 The practitioner should consider materiality when (Ref: par. .A14–.A19)

- planning and performing the review engagement, including when determining the nature, timing, and extent of procedures.
- evaluating whether the practitioner is aware of any material modifications that should be made to the subject matter in order for it to be in accordance with (or based on) the criteria or the assertion in order for it to be fairly stated.

Procedures to Be Performed

.15 To obtain limited assurance, the practitioner should obtain sufficient appropriate review evidence in order to express a conclusion about whether any material modifications should be made to the subject matter in order for it to be in accordance with (or based on) the criteria, or the assertion, in order for it to be fairly stated.

.16 The practitioner should apply professional judgment in determining the specific nature, timing, and extent of review procedures. Based on (Ref: par. .A20–.A23)

- a.* the practitioner's understanding of
 - i.* the subject matter and the practices used by the responsible party to measure, recognize, and record the subject matter and
 - ii.* the engagement circumstances, and
- b.* the practitioner's awareness of the risk that the practitioner may unknowingly fail to modify the practitioner's report when the subject matter is materially misstated,

the practitioner should design and perform analytical procedures and make inquiries and perform other procedures, as appropriate, to accumulate review evidence in obtaining limited assurance about whether any material modifications should be made to the subject matter in order for it to be in accordance with (or based on) the criteria, or the assertion, in order for it to be fairly stated.

.17 Analytical procedures may not be possible when the subject matter is qualitative, rather than quantitative. In those circumstances, the practitioner should perform other procedures, in addition to inquiries, that provide equivalent levels of review evidence. (Ref: par. .A24)

.18 The practitioner should place increased focus in those areas in which the practitioner believes there are increased risks that the subject matter may be materially misstated. (Ref: par. .A25–.A26)

Analytical Procedures

.19 When designing and performing analytical procedures, the practitioner should (Ref: par. .A27–.A28)

- a.* determine the suitability of particular analytical procedures for the subject matter, taking into account the practitioner’s awareness of risks;
- b.* evaluate the reliability of data from which the practitioner’s expectation is developed, taking into account the source, comparability, nature, and relevance of information available; and
- c.* develop an expectation with respect to recorded amounts or ratios.

.20 If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected amounts or ratios, the practitioner should (Ref: par. .A29)

- a.* inquire of the responsible party about such differences and
- b.* consider the responses to these inquiries to determine whether other procedures are necessary in the circumstances.

Inquiries and Other Review Procedures

.21 The practitioner should inquire of the responsible party about the following: (Ref: par. .A30)

- a.* Whether the subject matter has been prepared in accordance with (or based on) the criteria
- b.* The practices used by the responsible party to measure, recognize, and record the subject matter
- c.* Questions that have arisen in the course of applying the review procedures
- d.* Communications from regulatory agencies or others, if relevant

.22 The practitioner should consider the reasonableness and consistency of the responsible party’s responses in light of the results of other review procedures and the practitioner’s knowledge of the subject matter, criteria, and responsible party.

Fraud, Laws, and Regulations

.23 The practitioner should make inquiries of appropriate parties to determine whether they have knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the subject matter.

.24 The practitioner should respond appropriately to fraud or suspected fraud and noncompliance or suspected noncompliance with laws or regulations affecting the subject matter that is identified during the engagement. (Ref: par. .A31–.A32)

Incorrect, Incomplete, or Otherwise Unsatisfactory Information

.25 During the performance of review procedures, if the practitioner becomes aware that information coming to the practitioner's attention is incorrect, incomplete, or otherwise unsatisfactory, the practitioner should request that the responsible party consider the effect of these matters on the subject matter and communicate the results of its consideration to the practitioner. The practitioner should consider the results communicated to the practitioner by the responsible party and the potential effect, if any, on the practitioner's report.

.26 If the practitioner believes the subject matter may be materially misstated, the practitioner should perform additional procedures sufficient to obtain limited assurance about whether any material modifications should be made to the subject matter in order for it to be in accordance with (or based on) the criteria or the assertion in order for it to be fairly stated.

Using the Work of a Practitioner's Specialist or Internal Auditors

.27 When the practitioner expects to use the work of a practitioner's specialist or internal auditors, the practitioner should apply the requirements in section 205, *Examination Engagements*, and the related application guidance, as appropriate, for a review engagement.¹

Evaluating the Results of Review Procedures

.28 The practitioner should accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: par. .A33–.A34)

.29 The practitioner should evaluate the sufficiency and appropriateness of the review evidence obtained in the context of the engagement and, if necessary, attempt to obtain further review evidence. The practitioner should consider all relevant review evidence, regardless of whether it appears to corroborate or contradict the measurement or evaluation of the subject matter against the criteria. (Ref: par. .A35–.A37)

.30 If the practitioner concludes that the subject matter is materially misstated or is unable to obtain review evidence sufficient for limited assurance, the practitioner should consider the implications for the practitioner's conclusion in paragraphs .51–.60.

Considering Subsequent Events and Subsequently Discovered Facts

.31 The practitioner should inquire whether the responsible party, and if different, the engaging party, is aware of any events subsequent to the period (or point in time) covered by the review engagement up to the date of the practitioner's report that could have a significant effect on the subject matter or assertion. If the practitioner becomes aware, through inquiry or otherwise, of such an event, or any other event that is of such a nature and significance that its disclosure is necessary to prevent users of the report from being misled, and information about that event is not adequately disclosed by the responsible party in the subject matter or in its assertion, the practitioner should take appropriate action. (Ref: par. .A38–.A40)

.32 The practitioner has no responsibility to perform any procedures regarding the subject matter or assertion after the date of the practitioner's report. Nevertheless, the practitioner should respond appropriately to facts that become known to the practitioner after the date of the report that, had they been known to the practitioner at that date, may have caused the practitioner to revise the report. (Ref: par. .A41–.A42)

¹ Paragraphs .36–.44 of section 205, *Examination Engagements*.

Written Representations

.33 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. .A43–.A46)

- a.* include the responsible party’s assertion about the subject matter based on the criteria. (Ref: par. .A76)
- b.* state that all relevant matters are reflected in the measurement or evaluation of the subject matter or assertion.
- c.* state that all known matters contradicting the subject matter or assertion and any communication from regulatory agencies or others affecting the subject matter or assertion have been disclosed to the practitioner, including communications received between the end of the period addressed in the written assertion and the date of the practitioner’s report.
- d.* acknowledge responsibility for
 - i.* the subject matter and the assertion;
 - ii.* selecting the criteria, when applicable; and
 - iii.* determining that such criteria are appropriate for the responsible party’s purposes.
- e.* state that any known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the subject matter or assertion have been disclosed to the practitioner. (Ref: par. .A45)
- f.* state that it has provided the practitioner with all relevant information and access.
- g.* if applicable, state that the responsible party believes the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the subject matter. (Ref: par. .A46)
- h.* if applicable, state that significant assumptions used in making any material estimates are reasonable.
- i.* state that the responsible party has disclosed to the practitioner
 - i.* all deficiencies in internal control relevant to the engagement of which the responsible party is aware;
 - ii.* its knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the subject matter; and
 - iii.* other matters as the practitioner deems appropriate.

.34 When the engaging party is not the responsible party, and the responsible party refuses to provide the representations in paragraph .33 in writing, the practitioner should make inquiries of the responsible party about, and seek oral responses to, the matters in paragraph .33. (Ref: par. .A47)

.35 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

- a.* acknowledge that the responsible party is responsible for the subject matter and assertion.
- b.* acknowledge the engaging party’s responsibility for selecting the criteria, when applicable.

- c.* acknowledge the engaging party's responsibility for determining that such criteria are appropriate for its purposes.
- d.* state that the engaging party is not aware of any material misstatements in the subject matter or assertion.
- e.* 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 being reported on that would have a material effect on the subject matter or assertion. (Ref: par. .A45)
- f.* address other matters as the practitioner deems appropriate.

.36 When written representations are directly related to matters that are material to the subject matter, the practitioner should

- a.* evaluate their reasonableness and consistency with other review evidence obtained, including other representations (oral or written) and
- b.* consider whether those making the representations can be expected to be well informed on the particular matters.

.37 The date of the written representations should be as of the date of the practitioner's report. The written representations should address the subject matter and periods covered by the practitioner's conclusion.

Requested Written Representations Not Provided or Are Unreliable

.38 When the engaging party is the responsible party, and one or more of the requested written representations are not provided, or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or the practitioner concludes that the written representations are otherwise not reliable, the practitioner should

- a.* discuss the matter with the appropriate party(ies),
- b.* reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations and review evidence in general, and
- c.* if any of the matters are not resolved to the practitioner's satisfaction, withdraw from the engagement.

.39 When the engaging party is not the responsible party (Ref: par. .A47-.A49)

- a.* if one or more of the requested representations are provided in writing by the responsible party, but the practitioner receives satisfactory oral responses to the practitioner's inquiries performed in accordance with paragraph .34 sufficient to enable the practitioner to conclude that the practitioner has sufficient appropriate review evidence to form a conclusion about the subject matter, the practitioner's report should contain a separate paragraph that restricts the use of the practitioner's report to the engaging party. (Paragraphs .48-.49 contain requirements for the contents of such a paragraph.)
- b.* if one or more of the requested representations are provided neither in writing nor orally from the responsible party in accordance with paragraph .34, a scope limitation exists, and the practitioner

should withdraw from the engagement.

Other Information

.40 If prior to or after the release of the practitioner's report on subject matter or an assertion, the practitioner is willing to permit the inclusion of the practitioner's report in a document that contains the subject matter or assertion and other information, the practitioner should read the other information to identify material inconsistencies, if any, with the subject matter, assertion, or the practitioner's report. If on reading the other information, in the practitioner's professional judgment (Ref: par. .A50–.A51)

- a. a material inconsistency between that other information and the subject matter, assertion, or the practitioner's report exists, or
- b. a material misstatement of fact exists in the other information, the subject matter, assertion, or the practitioner's report

the practitioner should discuss the matter with the responsible party and take further action as appropriate.

Description of Criteria

.41 The practitioner should evaluate whether the written description of the subject matter or assertion adequately refers to or describes the criteria. (Ref: par. .A52–.A53)

Forming the Conclusion

.42 The practitioner should form a conclusion about whether the practitioner is aware of any material modifications that should be made to the subject matter in order for it to be in accordance with (or based on) the criteria or to the responsible party's assertion in order for it to be fairly stated. In forming that conclusion, the practitioner should evaluate

- a. the practitioner's conclusion regarding the sufficiency and appropriateness of the review evidence obtained and (Ref: par. .A54)
- b. whether uncorrected misstatements are material, individually or in the aggregate. (Ref: par. .A55)

.43 The practitioner should evaluate, based on the review evidence obtained, whether the presentation of the subject matter or assertion is misleading within the context of the engagement. (Ref: par. .A56–.A57)

Preparing the Practitioner's Report

.44 The practitioner's report should be in writing. (Ref: par. .A58–.A59)

.45 A practitioner should report on a written assertion or should report directly on the subject matter. If the practitioner is reporting on the assertion, the assertion should be bound with or accompany the practitioner's report, or the assertion should be clearly stated in the report. (Ref: par. .A60)

Content of the Practitioner's Report

.46 The practitioner's report should include the following:

- a. A title that includes the word *independent*. (Ref: par. .A61)
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. An identification or description of the subject matter or assertion being reported on, including the

point in time or period of time to which the measurement or evaluation of the subject matter or assertion relates.

- d.* An identification of the criteria against which the subject matter was measured or evaluated. (Ref: par. .A62)
- e.* A statement that identifies
 - i.* the responsible party and its responsibility for the subject matter in accordance with (or based on) the criteria or for its assertion and (Ref: par. .A63–.A64)
 - ii.* the practitioner’s responsibility to express a conclusion on the subject matter or assertion, based on the practitioner’s review. (Ref: par. .A63)
- f.* A statement that
 - i.* the practitioner’s review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii.* those standards require that the practitioner plan and perform the review to obtain limited assurance about whether any material modifications should be made to
 - (1) the subject matter in order for it to be in accordance with (or based on) the criteria (or equivalent language regarding the subject matter and criteria, such as the language used in the examples in paragraph .A65) or
 - (2) the responsible party’s assertion in order for it to be fairly stated.
 - iii.* a review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether the subject matter is in accordance with (or based on) the criteria, in all material respects, or the responsible party’s assertion is fairly stated, in all material respects, in order to express an opinion. Accordingly, the practitioner does not express such an opinion.
 - iv.* the practitioner believes the review provides a reasonable basis for the practitioner’s conclusion.
- g.* A statement that describes significant inherent limitations, if any, associated with the measurement or evaluation of the subject matter against the criteria. (Ref: par. .A66)
- h.* The practitioner’s conclusion about whether, based on the review, the practitioner is aware of any material modifications that should be made to (Ref: par. .A67–.A69)
 - i.* the subject matter in order for it be in accordance with (or based on) the criteria (or equivalent language regarding the subject matter and criteria, such as the language used in the examples in paragraph .A67) or
 - ii.* the responsible party’s assertion in order for it to be fairly stated.
- i.* The manual or printed signature of the practitioner’s firm.
- j.* The city and state where the practitioner practices. (Ref: par. .A70)
- k.* The date of the report. (The report should be dated no earlier than the date on which the practitioner has obtained sufficient appropriate review evidence on which to base the practitioner’s conclusion, including evidence that
 - i.* the attestation documentation has been reviewed,

- ii. if applicable, the written presentation of the subject matter has been prepared, and
- iii. the responsible party has provided a written assertion or, in the circumstance described in paragraph .A49, an oral assertion.) (Ref: par. .A71–.A72)

Restricted-Use Paragraph

.47 In the following circumstances, the practitioner’s report should include an alert, in a separate paragraph, that restricts the use of the report: (Ref: par. .A73–.A76)

- a. The practitioner determines that the criteria used to evaluate the subject matter are appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria.
- b. The criteria used to evaluate the subject matter are available only to specified parties.
- c. The engaging party is not the responsible party, and the responsible party does not provide the written representations required by paragraph .33, but does provide oral responses to the practitioner’s inquiries about the matters in paragraph .33, as provided for in paragraphs .34 and .39a. In this case, use of the report should be restricted to the engaging party. (Ref: par. .A76)

.48 The alert should

- a. state that the practitioner’s report is intended solely for the information and use of the specified parties,
- b. identify the specified parties for whom use is intended, and (Ref: par. .A77)
- c. state that the report is not intended to be, and should not be, used by anyone other than the specified parties. (Ref: par. .A78–.A80)

.49 When the engagement is also performed in accordance with *Government Auditing Standards*, the alert that restricts the use of the practitioner’s report should include the following information, rather than the information required by paragraph .48:

- a. A description of the purpose of the report
- b. A statement that the report is not suitable for any other purpose

Reference to the Practitioner’s Specialist

.50 The practitioner should not refer to the work of a practitioner’s specialist in the practitioner’s report containing an unmodified conclusion. (Ref: par. .A81)

Modified Conclusions

Misstatement of Subject Matter

.51 A practitioner who is engaged to perform a review engagement may become aware that the subject matter is misstated. If the misstatement is not corrected, the practitioner should consider whether

qualification of the conclusion in the standard practitioner's report is adequate to disclose the misstatement of the subject matter. (Ref: par. .A82)

.52 When the practitioner qualifies the conclusion, the practitioner should include a separate paragraph in the practitioner's report that provides a description of the matter(s) giving rise to the qualification.

.53 The practitioner should express a qualified conclusion when the effects of a matter are material but not pervasive. A qualified conclusion is expressed as being "except for the effects" of the matter to which the qualification relates. When the effects of a matter are material and also pervasive, the practitioner should withdraw from the engagement, when withdrawal is possible under applicable laws and regulations. (Ref: par. .A83)

.54 If the practitioner has concluded that the material misstatement results in a qualified conclusion, the practitioner should report directly on the subject matter, not on the assertion, even when the assertion acknowledges the misstatement.

.55 If the practitioner believes that qualification of the conclusion in the standard practitioner's report is not adequate to indicate the misstatements in the subject matter, the practitioner should withdraw from the engagement.

.56 The practitioner's conclusion on the subject matter or assertion should be clearly separated from any paragraphs emphasizing matters related to the subject matter or any other reporting responsibilities.

.57 When the conclusion is qualified, reference to an external specialist is permitted when such reference is relevant to an understanding of the qualification to the practitioner's conclusion. The practitioner should indicate in the practitioner's report that such reference does not reduce the practitioner's responsibility for that conclusion.

Scope Limitations

.58 If the practitioner is unable to obtain sufficient appropriate review evidence, a scope limitation exists. When a scope limitation exists, the practitioner should withdraw from the engagement, when withdrawal is possible under applicable laws and regulations. (Ref: par. .A84–.A86)

Responsible Party Refuses to Provide a Written Assertion

.59 If the engaging party is the responsible party and refuses to provide the practitioner with a written assertion as required by paragraph .11, the practitioner should withdraw from the engagement when withdrawal is possible under applicable law or regulation.

.60 When the engaging party is not the responsible party and the responsible party refuses to provide the practitioner with a written assertion, the practitioner may report on the subject matter but should disclose in the practitioner's report the responsible party's refusal to provide a written assertion and should restrict the use of the practitioner's report to the engaging party. (Ref: par. .A87–.A88)

Communication Responsibilities

.61 The practitioner should communicate to the responsible party known and suspected fraud and noncompliance with laws or regulations, as well as uncorrected misstatements. When the engaging party

is not the responsible party, the practitioner should also communicate this information to the engaging party. (Ref: par. .A89)

Documentation

.62 The practitioner should prepare engagement documentation that is sufficient to determine (Ref: par. .A90–.A93)

- a.* the nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including
 - i.* the identifying characteristics of the specific items or matters tested;
 - ii.* who performed the engagement work and the date such work was completed;
 - iii.* the discussions with the responsible party or others about findings or issues that, in the practitioner’s professional judgment, are significant, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place;
 - iv.* when the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations; the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations; or that the written representations are otherwise not reliable, the matters in paragraph .38;
 - v.* when the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .33, the oral responses from the responsible party to the practitioner’s inquiries regarding the matters in paragraph .33, in accordance with paragraph .34; and
 - vi.* who reviewed the engagement work performed and the date and extent of such review.
- b.* the results of the procedures performed and the review evidence obtained.

.63 If the practitioner identified information that is inconsistent with the practitioner’s final conclusion regarding a significant finding or issue, the practitioner should document how the practitioner addressed the inconsistency.

.64 If, in circumstances such as those described in paragraph .32, the practitioner performs new or additional procedures or draws new conclusions after the date of the practitioner’s report, the practitioner should document

- a.* the circumstances encountered;
- b.* the new or additional procedures performed, evidence obtained, and conclusions reached and their effect on the report; and
- c.* when and by whom the resulting changes to the documentation were made and reviewed.

Application and Other Explanatory Material

Conduct of a Review Engagement (Ref: par. .05–.07)

.A1 For example, if a practitioner was reviewing pro forma financial information, section 105, this section, and section 310, *Reporting on Pro Forma Financial Information*, would be relevant.

.A2 Review procedures generally are limited to inquiries and analytical procedures. In circumstances in which inquiry and analytical procedures are not expected to provide sufficient appropriate review evidence, or when the nature of the subject matter does not lend itself to the application of analytical procedures, the practitioner may perform other procedures that he or she believes can provide the practitioner with a level of assurance equivalent to that which inquiries and analytical procedures would have provided. If the practitioner cannot design other procedures to obtain sufficient appropriate review evidence, a review engagement may not be appropriate.

Agreeing on the Terms of the Engagement (Ref: par. .08 and.09b)

.A3 It is in the interests of both the engaging party and the practitioner to document the agreed-upon terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The form and content of the engagement letter or other suitable form of written agreement will vary with the engagement circumstances.

.A4 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:

- a. A statement that a review is designed to obtain limited assurance about whether any material modifications should be made to the subject matter in order for it to be in accordance with (or based on) the criteria
- b. A statement that the objective of a review is the expression of a conclusion in a written practitioner's report about whether the practitioner is aware of any material modifications that should be made to
 - i. the subject matter in order for it be in accordance with (or based on) the criteria or
 - ii. the responsible party's assertion in order for it to be fairly stated

Requesting a Written Assertion (Ref: par. .11)

.A5 The language of the responsible party's written assertion in paragraph .11 may need to be tailored to reflect the nature of the subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph .11 include the following:

- The subject matter is presented in accordance with (or based on) the criteria.
- The subject matter achieved the objectives, for example, when the objectives are the criteria.

.A6 Situations may arise in which the current responsible party was not present during some or all of the period covered by the practitioner's report. Such persons may contend that they are not in a position to provide a written assertion that covers the entire period because they were not in place during some or all of the period. This fact, however, does not diminish such persons' responsibilities for the subject matter as a whole. Accordingly, the requirement for the practitioner to request a written assertion from the responsible party that covers the entire relevant period(s) still applies.

.A7 Paragraph .33a requires the practitioner to request a written representation from the responsible party that is the same as the responsible party's assertion. If the responsible party provides the practitioner with the written representation in paragraph .33a, the practitioner need not request a separate written assertion, unless a separate written assertion is called for by the engagement circumstances. (Ref: par. .11)

.A8 A practitioner may also be engaged to assist the responsible party in measuring or evaluating the subject matter against the criteria in connection with the responsible party providing a written assertion. Regardless of the procedures performed by the practitioner, the responsible party is required to accept responsibility for its assertion and the subject matter and may not base its assertion solely on the practitioner's procedures.²

Planning and Performing the Engagement (Ref: par. .12–.13)

.A9 Planning involves the engagement partner and other key members of the engagement team and may involve the practitioner's specialists. Adequate planning helps the practitioner devote appropriate attention to important areas of the engagement, identify potential problems on a timely basis, and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner. Adequate planning also assists the practitioner in properly assigning work to engagement team members, and facilitates the direction, supervision, and the review of their work. Further, it assists, when applicable, the coordination of work performed by other practitioners and practitioner's specialists. The nature and extent of planning activities will vary with the engagement circumstances, for example, the complexity of the assessment or evaluation of the subject matter and the practitioner's previous experience with it. Examples of relevant matters that may be considered include the following:

- The characteristics of the engagement that define its scope, including the terms of the engagement, the characteristics of the underlying subject matter, and the criteria
- The expected timing and nature of the communications required
- The results of preliminary engagement activities, such as client acceptance, and, when applicable, whether knowledge gained on other engagements performed by the engagement partner for the appropriate party(ies) is relevant
- The engagement process, including possible sources of review evidence, and choices among alternative measurement or evaluation methods
- The practitioner's understanding of the appropriate party(ies) and its (their) environment, including the risks that the subject matter may be materially misstated
- Identification of intended users and their information needs and consideration of materiality and the components of attestation risk
- The risk of fraud relevant to the engagement
- The effect on the engagement of using the internal audit function

.A10 The practitioner may decide to discuss elements of planning with the appropriate party(ies) to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned procedures with the work of the responsible party's personnel). Although these discussions often occur, the elements of planning remain the practitioner's responsibility. When discussing planning matters, care is needed to avoid compromising the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the responsible party may compromise the effectiveness of the engagement by making the procedures too predictable.

.A11 Planning is not a discrete phase but, rather, a cumulative and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or review evidence obtained, the practitioner may need to revise the nature, timing, and extent of planned procedures.

² The "Nonattest Services" interpretation (ET sec.1.295) of the AICPA Code of Professional Conduct addresses the practitioner's provision of nonattest services for an attest client.

.A12 In smaller or less complex engagements, the entire engagement may be conducted by a very small engagement team, possibly involving the engagement partner (who may be a sole practitioner) working without any other engagement team members. With a smaller team, coordination of, and communication among, team members is easier. In such cases, planning the engagement need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the engagement, and the size of the engagement team.

.A13 Obtaining an understanding of the subject matter and other engagement circumstances provides the practitioner with a frame of reference for exercising professional judgment throughout the engagement, for example, when

- considering the characteristics of the subject matter;
- assessing the suitability of the criteria;
- considering the factors that, in the practitioner's professional judgment, are significant in directing the engagement team's efforts, including situations in which special consideration may be necessary (for example, when there is a need for specialized skills or the work of a specialist);
- establishing and evaluating the continued appropriateness of quantitative materiality levels (when appropriate) and considering qualitative materiality factors;
- developing expectations when performing analytical procedures;
- designing and performing procedures; and
- evaluating review evidence, including the reasonableness of the written representations received by the practitioner.

In some review engagements, the practitioner may obtain an understanding of internal control over the measurement, evaluation, or disclosure of the subject matter.

Materiality in Planning and Performing the Engagement (Ref: par. .14)

.A14 Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the practitioner's professional judgment.

.A15 Professional judgments about materiality are made in light of surrounding circumstances, but they are not affected by the level of assurance, that is, for the same intended users, materiality for a review engagement is the same as it is for an examination engagement because materiality is based on the information needs of intended users and not the level of assurance.

.A16 In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of intended users that are made based on the subject matter. The practitioner's consideration of materiality is a matter of professional judgment and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users

- a. have a reasonable knowledge of the subject matter and a willingness to study the subject matter with reasonable diligence.
- b. understand that the subject matter is measured or evaluated and reviewed to appropriate levels of materiality and have an understanding of any materiality concepts included in the criteria.

- c. understand any inherent uncertainties involved in measuring or evaluating the subject matter.
- d. make reasonable decisions on the basis of the subject matter taken as a whole.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

.A17 Qualitative factors may include the following:

- The interaction between, and relative importance of, various aspects of the subject matter, such as numerous performance indicators
- The wording chosen with respect to subject matter that is expressed in narrative form, for example, the wording chosen does not omit or distort the information
- The characteristics of the presentation adopted for the subject matter when the criteria allow for variations in that presentation
- The nature of a misstatement
- Whether a misstatement affects compliance with laws or regulations
- In the case of periodic reporting on a subject matter, the effect of an adjustment that affects past or current information about the subject matter or is likely to affect future information about the subject matter
- Whether a misstatement is the result of an intentional act or is unintentional
- Whether a misstatement is significant with regard to the practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the subject matter
- Whether a misstatement relates to the relationship between the responsible party and, if different, the engaging party or its relationship with other parties

.A18 Quantitative factors relate to the magnitude of misstatements relative to reported amounts for those aspects of the subject matter, if any, that are

- expressed numerically or
- otherwise related to numerical values.

.A19 The criteria may discuss the concept of materiality in the context of the preparation and presentation of the subject matter and thereby provide a frame of reference for the practitioner in considering materiality for the engagement. Although criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs .A14–.A18. If the criteria do not include a discussion of the concept of materiality, these paragraphs provide the practitioner with a frame of reference.

Procedures to Be Performed (Ref: par. .16–.18)

.A20 Review evidence obtained through the performance of analytical procedures and inquiry will ordinarily provide the practitioner with a reasonable basis for obtaining limited assurance. However, the practitioner may determine it is appropriate to perform additional procedures if the practitioner determines such procedures to be necessary in order to meet the objectives of this section.

.A21 The degree to which procedures beyond analytical procedures and inquiry may be performed may be influenced by factors specific to the engagement. The practitioner may substitute other procedures that

provide equivalent levels of review evidence.

.A22 Information may come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based. As the practitioner performs planned procedures, the review evidence obtained may cause the practitioner to perform additional procedures. Such procedures may include asking the responsible party to examine the matter identified by the practitioner and to make adjustments to the subject matter, if appropriate.

.A23 In some cases, a subject-matter AT-C section may include requirements that affect the nature, timing, and extent of procedures. For example, a subject-matter AT-C section may describe the nature or extent of particular procedures to be performed in a particular type of engagement. Even in such cases, determining the exact nature, timing, and extent of procedures is a matter of professional judgment and will vary from one engagement to the next.

.A24 Review procedures generally are limited to inquiries and analytical procedures. In circumstances in which inquiry and analytical procedures are not expected to provide sufficient appropriate review evidence, or when the nature of the subject matter does not lend itself to the application of analytical procedures, the practitioner may perform other procedures that he or she believes can provide the practitioner with a level of assurance equivalent to that which inquiries and analytical procedures would have provided. If the practitioner cannot design other procedures to obtain sufficient appropriate review evidence, a review engagement may not be appropriate.

.A25 The results of the practitioner's analytical procedures and inquiries may modify the practitioner's risk awareness.

.A26 The practitioner may become aware of a matter(s) that causes the practitioner to believe that the subject matter may be materially misstated when, for example, performing analytical procedures if the practitioner identifies a fluctuation or relationship that is inconsistent with other relevant information or that differs significantly from expected amounts or ratios. In such cases, the practitioner's investigation of such differences may include inquiring of the responsible party or performing other procedures as appropriate in the circumstances.

Analytical Procedures (Ref: par. .19–.20)

.A27 An understanding of the purposes of analytical procedures and the limitations of those procedures is important. Accordingly, the identification of the relationships and types of data used, as well as conclusions reached when recorded amounts are compared to expectations, requires professional judgment by the practitioner.

.A28 Analytical procedures involve comparisons of expectations developed by the practitioner to recorded amounts or ratios developed from recorded amounts. The practitioner develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the practitioner's understanding of the subject matter; the practices used by the responsible party to measure, recognize, and record the subject matter; and, if applicable, the industry in which the entity operates.

.A29 Analytical procedures in a review engagement are not designed to identify misstatements with the level of precision expected in an examination engagement. Further, when significant fluctuations, relationships, or differences are identified, appropriate review evidence in a review engagement may often be obtained by making inquiries of the responsible party and considering responses received in the light of known engagement circumstances without obtaining additional evidence required in the case of an examination engagement.

Inquiries and Other Review Procedures (Ref: par. .21)

.A30 The practitioner is not ordinarily required to corroborate the responsible party's responses with other review evidence.

Fraud, Laws, and Regulations (Ref: par. .24)

.A31 In responding to fraud or suspected fraud identified during the engagement, it may be appropriate, unless prohibited by law, regulation, or ethics standards, for the practitioner to, for example

- discuss the matter with the appropriate party(ies).
- request that the responsible party consult with an appropriately qualified third party, such as the entity's legal counsel or a regulator.
- consider the implications of the matter in relation to other aspects of the engagement, including the practitioner's planning and the reliability of written representations from the responsible party.
- obtain legal advice about the consequences of different courses of action.
- communicate with third parties (for example, a regulator).
- withdraw from the engagement.

.A32 The actions noted in paragraph .A31 also may be appropriate in responding to noncompliance or suspected noncompliance with laws or regulations identified during the engagement. It may also be appropriate to describe the matter in a separate paragraph of the practitioner's report, unless the practitioner

- a. is precluded by the responsible party from obtaining sufficient appropriate review evidence to evaluate whether noncompliance that may be material to the subject matter has, or is likely to have, occurred, in which case, paragraph .58 applies or
- b. concludes that the noncompliance results in a material misstatement of the subject matter, in which case, paragraphs .51–.57 apply.

Evaluating the Results of Review Procedures (Ref: par. .28–.29)

.A33 Uncorrected misstatements are accumulated during the engagement for the purpose of evaluating whether, individually or in aggregate, they are material when forming the practitioner's conclusion. (See paragraph .42b.)

.A34 "Clearly trivial" is not another expression for "not material." Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality and will be matters that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature, or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

.A35 Sufficient appropriate review evidence is necessary to support the practitioner's conclusion and report.

.A36 The sufficiency and appropriateness of review evidence are interrelated. Sufficiency of review evidence is the measure of the quantity of review evidence. The quantity of the review evidence needed is affected by the risks of material misstatement and also by the quality of such review evidence.

.A37 Whether sufficient appropriate review evidence has been obtained on which to base the practitioner's conclusion is a matter of professional judgment.

Considering Subsequent Events and Subsequently Discovered Facts (Ref: par. .31–.32)

.A38 For certain subject-matter AT-C sections, specific subsequent events requirements and related application guidance have been developed for engagement performance and reporting.

.A39 Procedures that a practitioner may perform to identify subsequent events include inquiring about and considering information

- contained in relevant reports issued during the subsequent period by internal auditors, other practitioners, or regulatory agencies
- obtained through other professional engagements for that entity

.A40 If the responsible party refuses to disclose a subsequent event for which disclosure is necessary to prevent users of the practitioner's report from being misled, appropriate actions the practitioner may take include

- disclosing the event in the report and modifying the practitioner's conclusion.
- withdrawing from the engagement.

.A41 Subsequent to the date of the practitioner's report, the practitioner may become aware of facts that, had they been known to the practitioner at that date, may have caused the practitioner to revise the report. In such circumstances, the practitioner undertakes to determine whether the facts existed at the date of the report and, if so, whether persons are currently using or likely to use the report and related subject matter or assertion who would attach importance to these facts. This may include discussing the matter with the appropriate party(ies) and requesting the appropriate party(ies)'s cooperation in whatever investigation or further action that may be necessary. The specific actions to be taken in a particular case by the appropriate party(ies) and the practitioner may vary with the circumstances. Consideration may be given to, among other things, the time elapsed since the date of the report and whether issuance of a subsequent report is imminent. The practitioner may need to perform additional procedures deemed necessary to determine whether the subject matter or assertion needs revision and whether the previously issued report continues to be appropriate.

.A42 Depending on the circumstances, the practitioner may determine that notification of the situation by the appropriate party(ies) to persons who would attach importance to these facts and who are currently using, or are likely to use, the practitioner's report who would attach importance to the facts is necessary. This may be the case, for example, when

- a.* the report is not to be relied upon because the subject matter or assertion needs revision or the practitioner is unable to determine whether revision is necessary, and
- b.* issuance of a subsequent report is not imminent.

If the appropriate party(ies) failed to take the necessary steps to prevent reliance on the report, the practitioner's course of action depends upon the practitioner's legal and ethical rights and obligations. Consequently, the practitioner may consider it appropriate to seek legal advice prior to making any disclosure of the situation. Disclosure of the situation directly by the practitioner may include a description of the nature of the matter and of its effect on the subject matter or assertion and the report, avoiding comments concerning the conduct or motives of any person.

Written Representations (Ref: par. .33– .34, .35e, and 39a)

.A43 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(ies), which may vary by entity, reflecting influences such as size and ownership characteristics.

.A44 Representations by the responsible party cannot replace other review evidence the practitioner could reasonably expect to be available. Although written representations provide review evidence, they do not provide sufficient appropriate review 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 review evidence that the practitioner obtains.

.A45 A discussion of what is considered a material effect on the subject matter or assertion may be included explicitly in the representation letter in qualitative or quantitative terms.

.A46 A summary of uncorrected misstatements ordinarily is included in or attached to the written representation.

.A47 Certain subject-matter AT-C sections do not permit the practitioner to perform the alternative procedures described in paragraphs .34 and .39a (making inquiries of the responsible party and restricting the use of the practitioner's report).

Requested Written Representations Not Provided or Not Reliable (Ref: par. .39)

.A48 Even when the responsible party provides oral responses to the matters in paragraph .33, the practitioner may find it appropriate to consider whether there are significant concerns about the competence, integrity, ethical values, or diligence of those providing the oral responses or whether the oral responses are otherwise not reliable and the potential effect, if any, on the practitioner's report.

.A49 Paragraph .11 provides an exception to the requirement for a written assertion when the engaging party is not the responsible party. Nonetheless, because the assertion is the representation called for by paragraph .33a, application of paragraph .39a requires the practitioner to obtain an oral assertion, when a written assertion is not obtained. Paragraph .39b applies when the responsible party provides neither a written nor an oral assertion.

Other Information (Ref: par. .40)

.A50 Further actions that may be appropriate if the practitioner identifies a material inconsistency or becomes aware of a material misstatement of fact include, for example, the following:

- Requesting the appropriate party(ies) to consult with a qualified third party, such as the appropriate party(ies)'s legal counsel
- Obtaining legal advice about the consequences of different courses of action
- If required or permissible, communicating with third parties (for example, a regulator)
- Describing the material inconsistency in the practitioner's report
- Withdrawing from the engagement, when withdrawal is possible under applicable law or regulation

.A51 Other information does not include information contained on the appropriate party(ies)'s website. Websites are a means of distributing information and are not, themselves, documents for the purposes of paragraph .40.

Description of Criteria (Ref: par. .41)

.A52 The description of the criteria on which the subject matter or assertion is based is particularly important when there are significant differences between various criteria regarding how particular matters may be treated in the subject matter.

.A53 A description of the criteria that states that the subject matter is prepared in accordance with (or based on) particular criteria is appropriate only if the subject matter complies with all relevant requirements of those criteria that are effective.

Forming the Conclusion (Ref: par. .42–.43)

.A54 The practitioner's professional judgment regarding what constitutes sufficient appropriate review evidence is influenced by such factors as the following:

- The significance of a potential misstatement and the likelihood that it will have a material effect, individually or aggregated with other potential misstatements, on the subject matter or assertion
- The effectiveness of the responsible party's responses to address the known risks
- The experience gained during previous examination or review engagements with respect to similar potential misstatements
- The results of procedures performed, including whether such procedures identified specific misstatements
- The source and reliability of the available information
- The persuasiveness of the review evidence
- The practitioner's understanding of the responsible party and its environment

.A55 A review engagement is a cumulative and iterative process. As the practitioner performs planned procedures, the review evidence obtained may cause the practitioner to change the nature, timing, or extent of other planned procedures. Information that differs significantly from the information on which the planned procedures were based may come to the practitioner's attention, for example

- the extent of the misstatements that the practitioner detects is greater than expected. (This may alter the practitioner's professional judgment about the reliability of particular sources of information.)
- the practitioner may become aware of discrepancies in relevant information or conflicting or missing review evidence.
- procedures performed toward the end of the engagement may indicate a previously unrecognized risk of material misstatement. In such circumstances, the practitioner may need to reevaluate the planned procedures.

.A56 In making the evaluation required by paragraph .43, the practitioner may consider whether additional disclosures are necessary to describe the subject matter, assertion, or criteria. Additional disclosures may, for example, include

- the measurement or evaluation methods used when the criteria allow for choice among methods;
- significant interpretations made in applying the criteria in the engagement circumstances;

- subsequent events, depending on their nature and significance; and
- whether there have been any changes in the measurement or evaluation methods used.

.A57 Paragraph .43 does not require the practitioner to determine whether the presentation discloses all matters related to the subject matter, assertion, or criteria or all matters users may consider in making decisions based on the presentation.

Preparing the Practitioner’s Report (Ref: par. .44–.45)

.A58 Oral and other forms of expressing a conclusion can be misunderstood without the support of a written practitioner’s report. For this reason, the practitioner may not report orally or by use of symbols (such as a web seal) under the attestation standards without also providing a written report that is readily available whenever the oral report is provided or the symbol is used. For example, a symbol could be hyperlinked to a written report on the Internet.

.A59 This section does not require a standardized format for reporting on all review engagements. Instead, it identifies the basic elements that the practitioner’s report is to include. The report is tailored to the specific engagement circumstances. The practitioner may use headings, separate paragraphs, paragraph numbers, typographical devices (for example, the bolding of text), and other mechanisms to enhance the clarity and readability of the report.

.A60 All of the following reporting options are available to a practitioner, except when the circumstances described in paragraph .54 exist.

<i>The practitioner’s report may state that the practitioner reviewed</i>	and	<i>expresses a conclusion on</i>
the subject matter		the subject matter
the responsible party’s assertion		the responsible party’s assertion
the responsible party’s assertion		the subject matter

Content of the Practitioner’s Report

Title (Ref: par. .46a)

.A61 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 Review 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.

Criteria (Ref: par. .46d)

.A62 The practitioner’s report may include the criteria or refer to them if they are included in the subject matter presentation, in the assertion, or are otherwise readily available.

Relative Responsibilities (Ref: par. .46e)

.A63 Identifying relative responsibilities informs the intended users that the responsible party is responsible for the subject matter, and the practitioner’s role is to independently express a conclusion about it.

.A64 The practitioner may wish to expand the discussion of the responsible party’s responsibility, for

example, to indicate that the responsible party is responsible for the preparation and presentation of the subject matter in accordance with (or based on) the criteria, including the design, implementation, and maintenance of internal control to prevent, or detect and correct, misstatement of the subject matter, due to fraud or error.

Statement About the Subject Matter and Criteria (Ref: par. 46f(ii)(1))

.A65 The language in paragraph .46f(ii)(1) may need to be tailored to reflect the nature of the subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph .46f(ii)(1) include, “to obtain limited assurance about whether any material modifications should be made to the subject matter in order for it to

- be presented in accordance with (or based on) the criteria.”
- meet the objectives,” for example, when the objectives are the criteria.

Inherent Limitations (Ref: par. .46g)

.A66 In some cases, identification of specific inherent limitations may be required by an AT-C section. To communicate specific inherent limitations, the illustrative practitioner’s report on a review of pro forma financial information under section 310, for example, indicates that the objective of pro forma financial information is to show what the significant effects on the historical financial information might have been had the transaction (or event) occurred at an earlier date and that the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the specified transaction (or event) actually occurred earlier.³ When not explicitly required by an AT-C section, identification in the report of inherent limitations is based on the practitioner’s judgment.

Conclusion (Ref: par. .46h)

.A67 The practitioner’s conclusion can be worded either in terms of the subject matter and the criteria (for example, “Based on our review, we are not aware of any material modifications that should be made to the XYZ schedule in order for it to be in accordance with [or based on] the ABC criteria.”) or in terms of an assertion made by the responsible party (for example, “Based on our review, we are not aware of any material modifications that should be made to management of XYZ Company’s assertion in order for it to be fairly stated.”).

.A68 A single practitioner’s report may cover more than one aspect of a subject matter or an assertion about the subject matter. When that is the case, the report may contain separate opinions or conclusions on each aspect of the subject matter or assertion (for example, examination level related to some aspects or assertions and review level related to others, or an unmodified conclusion on some aspects or assertions and a modified conclusion on others).

.A69 A practitioner may report on subject matter or an assertion 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

³ Paragraph .18k and examples 2 and 3 in paragraph .A24 of section 310, *Reporting on Pro Forma Financial Information*.

the subject matter, in the written assertion, or in the report, even if the subject matter for the preceding date or period is not presented.

Location (Ref: par. .46j)

.A70 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.

Date (Ref: par. .46k)

.A71 Including the date of the practitioner's report informs the intended users that the practitioner has considered the effect on the subject matter and on the report of events that occurred up to that date.

.A72 Because the practitioner expresses a conclusion on the subject matter or assertion and the subject matter or assertion is the responsibility of the responsible party, the practitioner is not in a position to conclude that sufficient appropriate review evidence has been obtained until evidence is obtained that all of the elements that the subject matter or assertion comprises, including any related notes, when applicable, have been prepared, and the responsible party has accepted responsibility for them.

Restricted Use Paragraph (Ref: par. .47 and .48b–c)

.A73 A practitioner's report for which the conditions in paragraph .47 do not apply need not include an alert that restricts its use. However, nothing in the attestation standards precludes a practitioner from including such an alert in any practitioner's report or other practitioner's written communication.

.A74 A practitioner's report that is required by paragraph .47 to include an alert that restricts the use of the report may be included in a document that also contains a practitioner's report that is for general use. In such circumstances, the use of the general use report is not affected.

.A75 A practitioner may also issue a single combined practitioner's report that includes (a) a practitioner's report that is required by paragraph .47 to include an alert that restricts its use, and (b) a report that is for general use. If these two types of reports are clearly differentiated within the combined report, such as through the use of appropriate headers, the alert that restricts the use of the report may be limited to the report required by paragraph .47 to include such an alert. In such circumstances, the use of the general use report is not affected.

.A76 The representations required by paragraph .33 include an assertion. If the engaging party is not the responsible party and the responsible party provides an oral assertion, rather than a written assertion, paragraph .47c calls for an alert that restricts the use of the practitioner's report to the engaging party.

.A77 The practitioner may identify the specified parties by naming them, referring to a list of those parties, or identifying the class of parties, for example, "all customers of XYZ Company during some or all of the period January 1, 20XX to December 31, 20XX." The method of identifying the specified parties is determined by the practitioner.

.A78 In some cases, the criteria used to measure or evaluate the subject matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular criteria designed for regulatory purposes. To avoid misunderstandings, the practitioner alerts users of the practitioner's report to this fact and, therefore, that the report is intended solely for the information and use of the specified parties.

.A79 The alert that restricts the use of the practitioner's report is designed to avoid misunderstandings related to the use of the report, particularly if the report is taken out of the context in which the report is intended to be used. A practitioner may consider informing the responsible party and, if different, the engaging party or other specified parties that the report is not intended for distribution to parties other than those specified in the report. The practitioner may, in connection with establishing the terms of the

engagement, reach an understanding with the responsible party or, if different, the engaging party, that the intended use of the report will be restricted and may obtain the responsible party's agreement that the responsible party and specified parties will not distribute such report to parties other than those identified therein. A practitioner is not responsible for controlling, and cannot control, distribution of the report after its release.

.A80 In some cases, a restricted-use practitioner's report filed with regulatory agencies is required by law or regulation to be made available to the public as a matter of public record. Also, a regulatory agency, as part of its oversight responsibility for an entity, may require access to the restricted-use report in which it is not named as a specified party.

Reference to the Practitioner's Specialist (Ref: par. .50)

.A81 The practitioner has sole responsibility for the conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's specialist.

Modified Conclusions (Ref: par. .51–.53)

.A82 A practitioner may issue an unmodified conclusion only when the engagement has been conducted in accordance with the attestation standards. Such standards will not have been complied with if the practitioner has been unable to apply all the procedures that the practitioner considers necessary in the circumstances.

.A83 Pervasive effects on the subject matter are those that, in the practitioner's professional judgment

- a. are not confined to specific aspects of the subject matter;
- b. if so confined, represent or could represent a substantial proportion of the subject matter; or
- c in relation to disclosures, are fundamental to the intended users' understanding of the subject matter.

Scope Limitations (Ref: par. .58)

.A84 The procedures performed in a review engagement are, by definition, limited compared with those performed in an examination engagement. Limitations known to exist prior to accepting a review engagement are a relevant consideration when establishing whether the preconditions for a review engagement are present, in particular, whether the practitioner expects to be able to obtain the evidence needed to arrive at the practitioner's conclusion. (See section 105.⁴) If a further limitation is imposed by the appropriate party(ies) after a review engagement has been accepted, it may be appropriate to withdraw from the engagement, when withdrawal is possible under applicable laws and regulations.

.A85 The inability to obtain written representations from the responsible party ordinarily would result in a scope limitation. However, when the engaging party is not the responsible party, paragraph .34 enables the practitioner to make inquiries of the responsible party, and if the responsible party's oral responses enable the practitioner to conclude that the practitioner has sufficient appropriate review evidence to form a conclusion about the subject matter, paragraph .39a indicates that this would not cause a scope limitation. Further, paragraph .39a requires that the practitioner's report, in these circumstances, contain an alert paragraph that restricts the use of the report to the engaging party.

.A86 An inability to perform a specific procedure does not constitute a scope limitation if the practitioner

⁴ Paragraph .25b(iii) of section 105, *Concepts Common to All Attestation Engagements*.

is able to obtain sufficient appropriate review evidence by performing alternative procedures.

Responsible Party Refuses to Provide a Written Assertion (Ref: par. .60)

.A87 The following is an example of the disclosure required by paragraph .60):

Attestation standards established by the American Institute of Certified Public Accountants require that we request a written statement from [*identify the responsible party*] stating that [*identify the subject matter*] that we reviewed has been accurately measured or evaluated. We requested that [*identify the responsible party*] provide such a written statement but [*identify the responsible party*] refused to do so.

.A88 The practitioner's report discussed in paragraph .60 is appropriate only when the engagement is to report on the subject matter; it is not appropriate for a report on an assertion. When reporting on an assertion, the practitioner is required to obtain a written assertion from the responsible party.

Communication Responsibilities (Ref: par. .61)

.A89 Other matters that may be appropriate to communicate to the responsible party or, if different, the engaging party, include deficiencies in internal control identified during the engagement, or bias in the measurement, evaluation, or disclosure of the subject matter.

Documentation (Ref: par. .62)

.A90 Documentation includes a record of the practitioner's reasoning on all significant findings or issues that require the exercise of professional judgment and related conclusions. The existence of difficult questions of principle or professional judgment calls for the documentation to include the relevant facts that were known by the practitioner at the time the conclusion was reached.

.A91 It is neither necessary nor practical to document every matter considered, or professional judgment made, during an engagement. Further, it is unnecessary for the practitioner to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included in the engagement file. Similarly, the practitioner need not include in the engagement file superseded drafts of working papers, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

.A92 In applying professional judgment to assess the extent of documentation to be prepared and retained, the practitioner may consider what is necessary to provide an experienced practitioner, having no previous connection with the engagement, with an understanding of the work performed and the basis of the principal decisions made.

.A93 Documentation ordinarily includes a record of

- issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
- conclusions on compliance with independence requirements that apply to the engagement and any relevant discussions with the firm that support these conclusions.
- conclusions reached regarding the acceptance and continuance of client relationships and attestation engagements.
- the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

Exhibit—Illustrative Practitioner’s Review Reports

The illustrative practitioner’s review reports in this exhibit meet the applicable reporting requirements in paragraphs .44–.60. A practitioner may use alternative language in drafting a review report, provided that the language meets the applicable requirements in paragraphs .44–.60. The criteria for evaluating the subject matter in examples 1 and 3 have been determined by the practitioner to be suitable and available to all users of the report; therefore, these reports may be for general use. The criteria for evaluating the subject matter in example 2 are suitable but available only to specified parties; therefore, use of this report is restricted to the specified parties who either participated in the establishment of the criteria or can be presumed to have an adequate understanding of the criteria. (See paragraph .48 for the information to be included in a separate paragraph of the report that contains an alert that restricts the use of the report and paragraph .49 for the content of that paragraph when the engagement is also performed in accordance with *Government Auditing Standards*.)

Example 1: Practitioner’s Review Report on Subject Matter; Unmodified Conclusion

The following is an illustrative practitioner’s review report in which the practitioner has reviewed the subject matter and is reporting on the subject matter.

Independent Accountant’s Review Report

[*Appropriate Addressee*]

We have reviewed [*identify the subject matter, 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 subject matter, for example, presenting the schedule of investment returns*] in accordance with (or based on) [*identify the criteria, for example, the ABC criteria set forth in Note 1*]. Our responsibility is to express a conclusion on [*identify the subject matter, for example, the schedule of investment returns*] based on our review.

Our review 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 review to obtain limited assurance about whether any material modifications should be made to [*identify the subject matter, for example, the schedule of investment returns*] in order for it to be in accordance with (or based on) the criteria. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether [*identify the subject matter, for example, the schedule of investment returns*] is in accordance with (or based on) the criteria, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

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

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

Based on our review, we are not aware of any material modifications that should be made to [*identify the subject matter, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX*], in order for it be in accordance with (or based on) [*identify the criteria, for example, the ABC criteria set forth in Note 1*].

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 2: Practitioner's Review Report on an Assertion; Unmodified Conclusion; Use of the Report Is Restricted to Specified Parties

The following is an illustrative practitioner's report for a review engagement in which the practitioner has reviewed the responsible party's assertion and is reporting on that assertion. Although suitable criteria exist for the subject matter, use of the report is restricted to specified parties because the criteria are available only to the specified parties.

Independent Accountant's Review Report

[Appropriate Addressee]

We have reviewed management of XYZ Company's assertion that [*identify the assertion, including the subject matter and the criteria, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX, is presented in accordance with (or based on) the ABC criteria set forth in Note 1*]. XYZ Company's management is responsible for its assertion. Our responsibility is to express a conclusion on management's assertion based on our review.

Our review 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 review to obtain limited assurance about whether any material modifications should be made to management's assertion in order for it to be fairly stated. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

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

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

Based on our review, we are not aware of any material modifications that should be made to management of XYZ Company's assertion in order for it to be fairly stated.

This report is intended solely for the information and use of [*identify the specified parties, for example, ABC Company and XYZ Company*], and is not intended to be, and should not be, used by anyone other than the specified parties.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 3: Practitioner's Review Report on Subject Matter; Qualified Conclusion

The following is an illustrative practitioner's report for a review engagement in which the practitioner expresses a qualified conclusion because the review identified conditions that, individually or in combination, result in one or more material, but not pervasive, misstatements of the subject matter, based

on the criteria. The practitioner has reviewed the subject matter and is also reporting on the subject matter. Paragraph .53 states, “If the practitioner has concluded that the material misstatement results in a qualified conclusion, the practitioner should report directly on the subject matter, not on the assertion, even when the assertion acknowledges the misstatement.”

Independent Accountant’s Review Report

[Appropriate Addressee]

We have reviewed *[identify the subject matter, 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 subject matter, for example, presenting the schedule of investment returns]* based on *[identify the criteria, for example, the ABC criteria set forth in Note I]*. Our responsibility is to express a conclusion on *[identify the subject matter, for example, the schedule of investment returns]* based on our review.

Our review 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 review to obtain limited assurance about whether any material modifications should be made to *[identify the subject matter, for example, the schedule of investment returns]* in order for it to be in accordance with (or based on) the criteria. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether *[identify the subject matter, for example, the schedule of investment returns]* is in accordance with (or based on) the criteria, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

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

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

Our review identified *[describe condition(s) that, individually or in the aggregate, resulted in a material misstatement, or deviation from, the criteria]*.

Based on our review, except for the matter(s) described in the preceding paragraph, we are not aware of any material modifications that should be made to *[identify the subject matter, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX]*, in order for it to be in accordance with (or based on) *[identify the criteria, for example, the ABC criteria set forth in Note I]*.

[Practitioner’s signature]

[Practitioner’s city and state]

[Date of practitioner’s report]

AT-C Section 215*

Agreed-Upon Procedures Engagements

Introduction

.01 This section contains performance and reporting requirements and application guidance for all agreed-upon procedures engagements. The requirements and guidance in this section supplement the requirements and guidance in section 105, *Concepts Common to All Attestation Engagements*.

.02 An *agreed-upon procedures engagement* is one in which a practitioner is engaged to issue, or does issue, a practitioner's report of findings based on specific agreed-upon procedures applied to subject matter for use by specified parties. Because the specified parties require that findings be independently derived, the services of a practitioner are obtained to perform procedures and report the practitioner's findings. The specified parties determine the procedures they believe to be appropriate to be applied by the practitioner. Because the needs of specified parties may vary widely, the nature, timing, and extent of the agreed-upon procedures may vary, as well; consequently, the specified parties assume responsibility for the sufficiency of the procedures because they best understand their own needs. In an engagement performed under this section, the practitioner does not perform an examination or a review and does not provide an opinion or conclusion. Instead, the report on agreed-upon procedures is in the form of procedures and findings.

.03 When a practitioner performs services pursuant to an engagement to apply agreed-upon procedures to subject matter as part of or in addition to another form of service, this section applies only to those services described herein; other professional standards would apply to the other services. Other services may include an audit, review, or compilation of a financial statement, another attestation service performed pursuant to the attestation standards, or a nonattestation service. A practitioner's report on applying agreed-upon procedures to subject matter may be combined with a report on such other services, provided the types of services can be clearly distinguished, and the applicable standards for each service are followed. (Ref: par. .A1)

.04 This section does not apply to engagements to issue letters (commonly referred to as *comfort letters*) to underwriters and certain other requesting parties.¹

Effective Date

.05 This section is effective for agreed-upon procedures reports dated on or after May 1, 2017.

Objectives

.06 In conducting an agreed-upon procedures engagement, the objectives of the practitioner are to

* This section contains an "AT-C" identifier, instead of an "AT" identifier, to avoid confusion with references to existing "AT" sections, which remain effective through April 2017, in *AICPA Professional Standards*.

¹ See AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, *Professional Standards*).

- a. apply to the subject matter procedures that are established by specified parties who are responsible for the sufficiency of the procedures for their purposes; (Ref: par. .A2)
- b. issue a written practitioner's report that describes the procedures applied and the practitioner's findings; and
- c. communicate further as required by relevant AT-C sections.

Definition

.07 For purposes of this section, the following term has the meaning attributed as follows:

Nonparticipant party. An additional specified party the practitioner is requested to add as a user of the practitioner's report subsequent to the completion of the agreed-upon procedures engagement. (The term *specified party* is defined in section 105.²)

Requirements

Conduct of an Agreed-Upon Procedures Engagement

.08 In performing an agreed-upon procedures engagement, the practitioner should comply with this section, section 105, and any subject-matter section that is relevant to the engagement. A subject-matter AT-C section is relevant to the engagement when it is in effect, and the circumstances addressed by the AT-C section exist. (Ref: par. .A3–.A4)

Preconditions for an Agreed-Upon Procedures Engagement

.09 Section 105 indicates that a practitioner must be independent when performing an attestation engagement in accordance with the attestation standards unless the practitioner is required by law or regulation to accept the engagement and report on the subject matter or assertion.³ When the practitioner is not independent but is required by law or regulation to accept an agreed-upon procedures engagement and report on the procedures performed and findings obtained, the practitioner's report should specifically state that the practitioner is not independent. The practitioner is neither required to provide, nor precluded from providing, the reasons for the lack of independence; however, if the practitioner chooses to provide the reasons for the lack of independence, the practitioner should include all the reasons therefor.

.10 In order to establish that the preconditions for an agreed-upon procedures engagement are present, the practitioner should determine that the following conditions, in addition to the preconditions identified in section 105, are present:⁴ (Ref: par. .A5–.A6)

- a. The specified parties agree on the procedures performed, or to be performed, by the practitioner.
- b. The specified parties take responsibility for the sufficiency of the agreed-upon procedures for their purposes. (Ref: par. .A6)
- c. The practitioner determines that the procedures can be performed and reported on in accordance with this section.

² Paragraph .10 of section 105, *Concepts Common to All Attestation Engagements*.

³ Paragraph .24 of section 105.

⁴ Paragraphs .24–.28 of section 105.

- d.* The procedures to be applied to the subject matter are expected to result in reasonably consistent findings using the criteria.
- e.* When applicable, the practitioner agrees to apply any materiality limits established by the specified parties for reporting purposes.
- f.* Use of the practitioner's report is to be restricted to the specified parties.

.11 The practitioner should not accept an agreed-upon procedures engagement when the specified parties do not agree upon the procedures performed, or to be performed, or do not take responsibility for the sufficiency of the procedures for their purposes. (See paragraphs .38–.40 for the requirements and related application guidance on satisfying these requirements when the practitioner is requested to add a nonparticipant party.) (Ref: par. .A6)

Agreeing on the Terms of the Engagement

.12 The practitioner should agree upon the terms of the engagement with the engaging party. The agreed-upon terms of the engagement should be specified in sufficient detail in an engagement letter or other suitable form of written agreement. (Ref: par. .A7)

.13 The agreement should be addressed to the engaging party.

.14 The agreed-upon terms of the engagement should include the following:

- a.* The nature of the engagement
- b.* Identification of the subject matter or assertion, the responsible party, and the criteria to be used (Ref: par. .A8)
- c.* Identification of specified parties
- d.* Acknowledgment by the specified parties of their responsibility for the sufficiency of the procedures (Ref: par. .A6)
- e.* The responsibilities of the practitioner (Ref: par. .A9–.A10)
- f.* A statement that the engagement will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants
- g.* Agreement on procedures by enumerating (or referring to) the procedures
- h.* Disclaimers expected to be included in the practitioner's report
- i.* Use restrictions
- j.* Assistance to be provided to the practitioner
- k.* Involvement of a practitioner's external specialist, if applicable
- l.* Agreed-upon materiality limits specified by the specified parties, if applicable

Requesting a Written Assertion

.15 The practitioner should request from the responsible party a written assertion about the measurement or evaluation of the subject matter against the criteria. (Ref: par. .A11–.A15)

.16 If the engaging party is not the responsible party, and the practitioner is aware that the responsible party refuses to provide the practitioner with a written assertion, the written agreement required by paragraph .12 should make clear that no such assertion will be provided to the practitioner. (Ref: par. .A15)

Procedures to Be Performed

.17 The procedures agreed upon pursuant to paragraph .14g should specify the nature, timing, and extent of the procedures. (Ref: par. .A16–.A20)

.18 In some circumstances, the procedures agreed upon evolve or are modified over the course of the engagement. In such circumstances, the practitioner should amend the engagement letter or other suitable form of written agreement, as applicable, to reflect the modified procedures.

.19 The practitioner should not agree to perform procedures that are open to varying interpretations. Terms of uncertain meaning (such as *general review*, *limited review*, *check*, or *test*) should not be used in describing the procedures unless such terms are defined within the agreed-upon procedures. (Ref: par. .A21)

.20 The practitioner should obtain evidence from applying the agreed-upon procedures to provide a reasonable basis for the finding or findings expressed in the practitioner’s report but need not perform additional procedures outside the scope of the engagement to gather additional evidence.

Using the Work of a Practitioner’s External Specialist

.21 The practitioner and the specified parties should explicitly agree to the involvement of a practitioner’s external specialist if assisting a practitioner in the performance of an agreed-upon procedures engagement. (Ref: par. .A22–.A24)

.22 The practitioner’s report should describe the nature of the assistance provided by the practitioner’s external specialist.

Using the Work of Internal Auditors or Other Practitioners

.23 The agreed-upon procedures to be enumerated or referred to in the practitioner’s report should be performed entirely by the engagement team or other practitioners. (Ref: par. .A25–.A27)

Findings

.24 A practitioner should present the results of applying agreed-upon procedures to specific subject matter in the form of findings.

.25 The practitioner’s report should not express an opinion or conclusion about whether the subject matter is in accordance with (or based on) the criteria or whether the assertion is fairly stated, for example, the report should not state, “Nothing came to our attention that caused us to believe that the subject matter is not in accordance with (or based on) the criteria, in all material respects, or that the assertion is not fairly stated, in all material respects.”

.26 The practitioner should report all findings from application of the agreed-upon procedures. Any agreed-upon materiality limits should be described in the practitioner’s report. (Ref: par. .A28)

.27 The practitioner should avoid vague or ambiguous language in reporting findings. (Ref: par. .A29)

Written Representations

.28 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. .A30)

- a.* include the responsible party's assertion about the subject matter based on the criteria.
- b.* state that all known matters contradicting the subject matter or assertion and any communication from regulatory agencies or others affecting the subject matter or assertion have been disclosed to the practitioner, including communications received between the end of the period addressed in the written assertion and the date of the practitioner's report.
- c.* acknowledge responsibility for
 - i.* the subject matter and the assertion;
 - ii.* selecting the criteria, when applicable; and
 - iii.* determining that such criteria are appropriate for the responsible party's purposes.
- d.* state that it has provided the practitioner with access to all records relevant to the subject matter and the agreed-upon procedures.
- e.* state that the responsible party has disclosed to the practitioner other matters as the practitioner deems appropriate.

.29 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

- a.* acknowledge that the responsible party is responsible for the subject matter and assertion.
- b.* acknowledge the engaging party's responsibility for selecting the criteria, when applicable.
- c.* acknowledge the engaging party's responsibility for determining that such criteria are appropriate for its purposes.
- d.* state that the engaging party is not aware of any material misstatements in the subject matter or assertion.
- e.* 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 being reported on that would have a material effect on the subject matter or assertion.

f. address other matters as the practitioner deems appropriate.

.30 The date of the written representations should be as of the date of the practitioner's report. The written representations should address the subject matter and periods covered by the practitioner's findings.

Requested Written Representations Not Provided or Not Reliable

.31 When the engaging party is the responsible party, and one or more of the requested written representations are not provided, or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or the practitioner concludes that the written representations are otherwise not reliable, the practitioner should

- a.* discuss the matter with the appropriate party(ies);
- b.* reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect, if any, on the engagement; and
- c.* if any of the matters are not resolved to the practitioner's satisfaction, take appropriate action. (Ref: par. .A31)

.32 When the engaging party is not the responsible party

- a.* if one or more of the requested representations in paragraph .28 are not provided in writing by the responsible party, the practitioner should make inquiries of the responsible party about, and seek oral responses to, the matters in paragraph .28. (Ref: par. .A32)
- b.* if one or more of the requested representations are not provided in writing or orally from the responsible party, the practitioner should take appropriate action. (Ref: par. .A33)

Preparing the Practitioner's Report

.33 The practitioner's report should be in writing. (Ref: par. .A34)

.34 The practitioner's report should be in the form of procedures and findings.

Content of the Practitioner's Agreed-Upon Procedures Report

.35 The practitioner's agreed-upon procedures report should include the following:

- a.* A title that includes the word *independent*. (Ref: par. .A35)
- b.* An appropriate addressee as required by the circumstances of the engagement.
- c.* An identification of the subject matter or assertion and the nature of an agreed-upon procedures engagement. (Ref: par. .A36)
- d.* An identification of the specified parties.
- e.* A statement that the procedures performed were those agreed to by the specified parties identified in the report.

- f. A statement that identifies the responsible party and its responsibility for the subject matter or its assertion.
- g. A statement that
 - i. the sufficiency of the procedures is solely the responsibility of the parties specified in the report.
 - ii. the practitioner makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose.
- h. A list of the procedures performed (or reference thereto) and related findings. (The practitioner should not provide a conclusion. (See paragraph .25.)
- i. When applicable, a description of any agreed-upon materiality limits.
- j. A statement that
 - i. the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii. the practitioner was not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the subject matter.
 - iii. the practitioner does not express such an opinion or conclusion.
 - iv. had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported. (Ref: par. .A37)
- k. When applicable, a description of the nature of the assistance provided by a practitioner's external specialist, as discussed in paragraphs .21–.22.
- l. When applicable, reservations or restrictions concerning procedures or findings. (Ref: par. .A38)
- m. An alert, in a separate paragraph, that restricts the use of the report. The alert should
 - i. state that the practitioner's report is intended solely for the information and use of the specified parties,
 - ii. identify the specified parties for whom use is intended, and
 - iii. state that the report is not intended to be, and should not be, used by anyone other than the specified parties. (Ref: par. .A39 –.A40)
- n. When the engagement is also performed in accordance with *Government Auditing Standards*, the alert that restricts the use of the report should include the following information, rather than the information required by paragraph .35m:
 - i. A description of the purpose of the report, and
 - ii. A statement that the report is not suitable for any other purpose.
- o. The manual or printed signature of the practitioner's firm.

- p. The city and state where the practitioner practices. (Ref: par. .A41)
- q. The date of the report. (The report should be dated no earlier than the date on which the practitioner completed the procedures and determined the findings, including that
 - i. the attestation documentation has been reviewed,
 - ii. if applicable, the written presentation of the subject matter has been prepared, and
 - iii. the responsible party has provided a written assertion, unless the responsible party refuses to provide an assertion.)

Responsible Party Refuses to Provide a Written Assertion

.36 When the responsible party refuses to provide the practitioner with a written assertion, the practitioner should disclose in the practitioner's report the responsible party's refusal to provide a written assertion. (Ref: par. .A42–.A43)

Restrictions on the Performance of Procedures

.37 When circumstances impose restrictions on the performance of the agreed-upon procedures, the practitioner should attempt to obtain agreement from the specified parties for modification of the agreed-upon procedures. When such agreement cannot be obtained (for example, when the agreed-upon procedures are published by a regulatory agency that will not modify the procedures), the practitioner should describe any restrictions on the performance of procedures in the practitioner's report or withdraw from the engagement.

Adding Specified Parties (Nonparticipant Parties)

.38 If the practitioner agrees to add a nonparticipant party, the practitioner should obtain affirmative acknowledgment, normally in writing, from the nonparticipant party agreeing to the procedures performed and of its taking responsibility for the sufficiency of the procedures. (Ref: par. .A44)

.39 If the practitioner's report is reissued to acknowledge the nonparticipant party, the date of the report should not be changed. (Ref: par. .A44)

.40 If the practitioner provides written acknowledgment that the nonparticipant party has been added as a specified party, such written acknowledgment ordinarily should state that no procedures have been performed subsequent to the date of the practitioner's report.

Knowledge of Matters Outside Agreed-Upon Procedures

.41 Although the practitioner need not perform procedures beyond the agreed-upon procedures, if in connection with the application, and through the completion of, the agreed-upon procedures engagement, matters come to the practitioner's attention by other means that significantly contradict the subject matter or assertion referred to in the practitioner's report, the practitioner should include this matter in the practitioner's report. (Ref: par. .A45–.A46)

Communication Responsibilities

.42 The practitioner should communicate to the responsible party known and suspected fraud and noncompliance with laws or regulations. When the engaging party is not the responsible party, the practitioner should also communicate this information to the engaging party.

Documentation

.43 The practitioner should prepare engagement documentation that is sufficient to determine (Ref: par. .A47)

- a. the specified parties' agreement on the procedures.
- b. the nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including
 - i. the identifying characteristics of the specific items or matters tested;
 - ii. who performed the engagement work and the date such work was completed;
 - iii. when the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the matters in paragraph .31a–c;
 - iv. when the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .28, the oral responses from the responsible party to the practitioner's inquiries regarding the matters in paragraph .28, in accordance with paragraph .32; and (Ref: par. .A32)
 - v. who reviewed the engagement work performed and the date and extent of such review.
- c. the results of the procedures performed and the evidence obtained.

Application and Other Explanatory Material

Introduction (Ref: par. .03)

.A1 A practitioner may issue a single combined practitioner's report that includes (a) a practitioner's report on subject matter or a presentation that requires a restriction on use to specified parties and (b) a report on subject matter or a presentation that ordinarily does not require such a restriction. The use of such a single combined report may be restricted to the specified parties. In some instances, a separate restricted use report may be included in a document that also contains a general use report. The inclusion of a separate restricted use report in a document that contains a general use report does not affect the intended use of either report. The restricted use report remains restricted as to use, and the general use report continues to be for general use.

Objectives (Ref: par. .06a)

.A2 In an agreed-upon procedures engagement, the practitioner applies procedures to the subject matter of the engagement. Even though the procedures are established by the specified parties, the requirements and guidance related to the subject matter and criteria in section 105 apply.

Conduct of an Agreed-Up Upon Procedures Engagement (Ref: par. .08, .10, and .14d)

.A3 For example, if a practitioner were performing agreed-upon procedures related to an entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants, section 105, this section, and section 315, *Compliance Attestation*, would be relevant.

.A4 Although independence is required for agreed-upon procedures engagements, the "Agreed-Up Upon Procedures Engagements Performed in Accordance With SSAEs" interpretation (AICPA, *Professional Standards*, ET sec. 1.297.020,), establishes independence requirements unique to such engagements.

.A5 To satisfy the requirements that the specified parties agree upon, the procedures performed or to be performed, and that the specified parties take responsibility for the sufficiency of the agreed-upon procedures for their purposes, the practitioner ordinarily communicates directly with and obtains affirmative acknowledgment from each of the specified parties. For example, this may be accomplished by meeting with the specified parties or by distributing a draft of the anticipated practitioner's report or a copy of an engagement letter to the specified parties and obtaining their agreement. If the practitioner is not able to communicate directly with all the specified parties, the practitioner may satisfy these requirements by applying any one or more of the following or similar procedures:

- Compare the procedures to be applied to written requirements of the specified parties.
- Discuss the procedures to be applied with appropriate representatives of the specified parties involved.
- Review relevant contracts with or correspondence from the specified parties.

.A6 Specified parties are responsible for the sufficiency (nature, timing, and extent) of the agreed-upon procedures because they best understand their own needs. The specified parties assume the risk that such procedures might be insufficient for their purposes. In addition, the specified parties assume the risk that they might misunderstand or otherwise inappropriately use findings properly reported by the practitioner.

Agreeing on the Terms of the Engagement (Ref: par. .12, and .14b and e)

.A7 It is in the interests of both the engaging party and the practitioner to document the agreed-upon terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The form and content of the engagement letter or other suitable form of written agreement will vary with the engagement circumstances.

.A8 The criteria may be indicated in the procedures as opposed to being described separately.

.A9 The responsibility of the practitioner is to carry out the procedures and report the findings in accordance with the attestation standards. The practitioner assumes the risk that misapplication

of the procedures may result in inappropriate findings being reported. Furthermore, the practitioner assumes the risk that appropriate findings may not be reported or may be reported inaccurately. The practitioner's risks can be reduced through adequate planning and supervision and due professional care in performing the procedures, accumulating the findings, and preparing the practitioner's report.

.A10 The practitioner has no responsibility to determine the differences between the agreed-upon procedures to be performed and the procedures that the practitioner would have determined to be necessary had the practitioner been engaged to perform another form of attestation engagement. The procedures that the practitioner agrees to perform pursuant to an agreed-upon procedures engagement may be more or less extensive than the procedures that the practitioner would determine to be necessary had he or she been engaged to perform another form of engagement.

Requesting a Written Assertion (Ref: par. .15–.16)

.A11 Situations may arise in which the current responsible party was not present during some or all of the period covered by the practitioner's report. Such persons may contend that they are not in a position to provide a written assertion that covers the entire period because they were not in place during some or all of the period. This fact, however, does not diminish such persons' responsibilities for the subject matter as a whole. Accordingly, the requirement for the practitioner to request a written assertion from the responsible party that covers the entire relevant period(s) still applies.

.A12 Paragraph .28a requires the practitioner to request a written representation from the responsible party that is the same as the responsible party's assertion. If the responsible party provides the practitioner with the written representation in paragraph .28a, the practitioner need not request a separate written assertion, unless a separate written assertion is called for by the engagement circumstances.

.A13 In an agreed-upon procedures engagement, the procedures that the practitioner is asked to perform frequently consist of comparing information from one source with information from another source to determine whether they agree. For that reason, the criteria identified in the assertion might be the agreement of one amount with another amount.

.A14 The following are examples of assertions the responsible party might make related to accounts receivable in the engagement that results in the practitioner's report illustrated in example 2 of paragraph .A48:

- General ledger account 250, "Accounts Receivable," as of December 31, 20XX, accurately summarizes the accounts receivable aged trial balance, which accurately summarizes individual customer account balances as of that date.
- The accounts receivable subsidiary ledger as of December 31, 20XX accurately summarizes individual account balances in the aged trial balance of accounts receivable as of that date.

- The aged trial balance of accounts receivable as of December 31, 20XX, accurately ages outstanding invoices in the accounts receivable subledger as of that date.
- The accounts receivable trial balance as of December 31, 20XX, accurately summarizes amounts due from customers at that date.

Alternatively, a single assertion such as the following might be appropriate:

- The accounts receivable aged trial balance as of December 31, 20XX, accurately presents the general ledger balance and the amounts and ages of individual customer balances as of that date.
- Additional assertions would be necessary for the engagement resulting in the report in example 2 of paragraph .A48, for example, an assertion about cash, or in the case of a single assertion, the assertion would need to be modified to address cash.

.A15 Paragraph .36 contains reporting requirements for situations in which the responsible party refuses to provide the practitioner with a written assertion.

Procedures to Be Performed (Ref: par. .17 and .19)

.A16 The procedures that the practitioner and specified parties agree upon may be as limited or as extensive as the specified parties desire. However, mere reading of an assertion or specified information about the subject matter does not constitute a procedure sufficient to permit a practitioner to report on the results of applying agreed-upon procedures.

.A17 Examples of appropriate procedures include the following:

- Execution of a sampling application after agreeing on relevant parameters
- Inspection of specified documents evidencing certain types of transactions or detailed attributes thereof
- Confirmation of specific information with third parties
- Comparison of documents, schedules, or analyses with certain specified attributes
- Performance of specific procedures on work performed by others
- Performance of mathematical computations

.A18 Examples of inappropriate procedures include the following:

- Mere reading of the work performed by others solely to describe their findings
- Evaluating the competency or objectivity of another party
- Obtaining an understanding about a particular subject
- Interpreting documents outside the scope of the practitioner's professional expertise

.A19 If the practitioner is selecting a sample, stating the size of the sample and how the selection was made (after agreement by the specified parties regarding the relevant parameters) contributes to the specificity of the description of procedures performed (for example, 50 items starting at the eighth item and selecting every fifteenth item thereafter or invoices issued from May 1 to July 31, 20XX).

.A20 Examples of other information the practitioner may include are the date the procedure was performed and the sources of information used in performing the procedure.

.A21 To avoid vague or ambiguous language, the procedures to be performed are characterized by the action to be taken at a level of specificity sufficient for a reader to understand the nature and extent of the procedures performed. Examples of acceptable descriptions of actions are the following:

- Inspect
- Confirm
- Compare
- Agree
- Trace
- Inquire
- Recalculate
- Observe
- Mathematically check

Conversely, the following descriptions of actions (unless defined to indicate the nature, timing, and extent of the procedures associated with these actions) generally are not acceptable because they are not sufficiently precise or have an uncertain meaning:

- Note
- Review
- General review
- Limited review
- Evaluate
- Analyze
- Check
- Test
- Interpret
- Verify
- Examine

Using the Work of a Practitioner's External Specialist (Ref: par. .21)

.A22 The practitioner's education and experience enable the practitioner to be knowledgeable about business matters in general, but the practitioner is not expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation. In certain circumstances, it may be appropriate to involve a practitioner's external specialist to assist the practitioner in the performance of one or more procedures. The following are examples of such circumstances:

- An attorney providing assistance concerning the interpretation of legal terminology in laws, regulations, rules, contracts, or grants
- A medical specialist providing assistance in understanding the characteristics of diagnosis codes documented in patient medical records
- An environmental engineer providing assistance in interpreting environmental remedial action regulatory directives that may affect the agreed-upon procedures applied to an environmental liabilities account in a financial statement
- A geologist providing assistance in distinguishing between the physical characteristics of a generic minerals group related to information to which the agreed-upon procedures are applied

.A23 The agreement regarding the involvement of a practitioner's external specialists may be reached when obtaining agreement on the procedures performed, or to be performed, and acknowledgment of responsibility for the sufficiency of the procedures, as discussed in paragraph .10*b*.

.A24 A practitioner may agree to apply procedures to the report or work product of a practitioner's external specialist that does not constitute assistance by the external specialist to the practitioner in an agreed-upon procedures engagement. For example, the practitioner may make reference to information contained in a report of a practitioner's external specialist in describing an agreed-upon procedure. However, it is inappropriate for the practitioner to agree to merely read the external specialist's report solely to describe or repeat the findings or to take responsibility for all or a portion of any procedures performed by a practitioner's external specialist or the external specialist's work product.

Using the Work of Internal Auditors or Other Practitioners (Ref: par. .23)

.A25 Internal auditors or other personnel may prepare schedules and accumulate data or provide other information for the practitioner's use in performing the agreed-upon procedures. Also, internal auditors may perform and report separately on procedures that they have carried out. Such procedures may be similar to those that a practitioner may perform under this section.

.A26 A practitioner may agree to perform procedures on information documented in the working papers of internal auditors. For example, the practitioner may agree to

- repeat all or some of the procedures.
- determine whether the internal auditors' documentation indicates procedures performed

and whether the findings documented are presented in a report by the internal auditors.

.A27 It is inappropriate for the practitioner to

- agree to merely read the internal auditors’ report solely to describe or repeat their findings.
- take responsibility for all or a portion of any procedures performed by internal auditors by reporting those findings as the practitioner’s own.
- report in any manner that implies shared responsibility for the procedures with the internal auditors.

Findings (Ref: par. .26–.27)

.A28 The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified parties. An example of language that describes a materiality limit is “For purposes of performing these agreed-upon procedures, no exceptions were reported for differences of \$1,000 or less resulting solely from the rounding of amounts disclosed.”

.A29 The following table provides examples of appropriate and inappropriate descriptions of findings resulting from the application of certain agreed-upon procedures.

Procedures Agreed Upon	Appropriate Description of Findings	Inappropriate Description of Findings
Inspect the shipment dates for a sample (agreed-upon) of specified shipping documents and determine whether any such dates were subsequent to [date].	No shipment dates shown on the sample of shipping documents were subsequent to [date].	Nothing came to my attention as a result of applying that procedure.
Recalculate the number of blocks of streets paved during the year ended [date], shown on contractors’ certificates of project completion; compare the resultant number to the number in an identified chart of performance statistics as of [date].	The number of blocks of streets paved in the chart of performance statistics was Y blocks more than the number calculated from the contractors’ certificates of project completion.	The number of blocks of streets paved approximated the number of blocks included in the chart of performance statistics.
Recalculate the rate of return on a specified investment (according to an agreed-upon formula) and determine whether the resultant percentage agrees to the percentage in an identified schedule.	No exceptions were found as a result of applying the procedure.	The resultant percentage approximated the predetermined percentage in the identified schedule.

<p>Inspect the quality standards classification codes in identified performance test documents for products produced during <i>[specified period]</i>; compare such codes to those shown in the <i>[identified]</i> computer printout for <i>[specified period]</i> as of <i>[date]</i>.</p>	<p>All classification codes inspected in the identified documents were the same as those shown in the computer printout, except for the following:</p> <p><i>[List all exceptions.]</i></p>	<p>All classification codes appeared to comply with such performance documents.</p>
<p>Trace all outstanding checks appearing on a bank reconciliation as of <i>[date]</i> to checks cleared in the bank statement of the subsequent month.</p>	<p>All outstanding checks appearing on the bank reconciliation were traced to the list of cleared checks in the subsequent month's bank statement, except for the following:</p> <p><i>[List all exceptions.]</i></p>	<p>Nothing came to my attention as a result of applying the procedure.</p>
<p>Compare the amounts of the invoices included in the "over 90 days" column shown in an identified schedule of aged accounts receivable of a specific customer as of <i>[date]</i> to the amount and invoice date shown on the corresponding outstanding invoice. Determine whether the dates on the corresponding outstanding invoices precede the date indicated on the schedule by more than 90 days.</p>	<p>All outstanding invoice amounts agreed with the amounts shown on the schedule in the "over 90 days" column, and the dates shown on such outstanding invoices preceded the date indicated on the schedule by more than 90 days.</p>	<p>The outstanding invoice amounts agreed within approximation of the amounts shown on the schedule in the "over 90 days" column, and nothing came to our attention that the dates shown on such outstanding invoices preceded the date indicated on the schedule by more than 90 days.</p>
<p>Obtain from XYZ Company <i>[personnel specified by management]</i>, the <i>[date]</i> bank reconciliations. Confirm with the bank the cash on deposit as of <i>[date]</i>. Compare the balance confirmed by the bank to the amount shown on the bank reconciliations.</p>	<p>Obtained from XYZ Company <i>[personnel specified by management]</i>, the <i>[date]</i> bank reconciliations. Obtained bank confirmations of the cash on deposit as of <i>[date]</i>. Compared the balance confirmed by the bank to the amount shown on the bank reconciliations.</p> <p><i>[List all exceptions.]</i></p>	<p>No exceptions were identified in the confirmations received, and nothing came to our attention as a result of applying the procedures.</p>

Written Representations (Ref: par. .28)

.A30 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(ies), which may vary by entity, reflecting influences such as size and ownership characteristics.

Requested Written Representations Not Provided or Not Reliable (Ref: par. .31c, .32, and .43b[iv])

.A31 Appropriate actions the practitioner might consider in the circumstances described in paragraph .31c include

- withdrawing from the engagement.
- determining the effect on the practitioner's report.

.A32 Documentation requirements regarding the responsible party's oral responses to the practitioner's inquiries about the matters in paragraph .28 are included in paragraph .43b(iv).

.A33 Appropriate action the practitioner might consider in the circumstances described in paragraph .32b include

- withdrawing from the engagement.
- determining the effect on the practitioner's report.

Preparing the Practitioner's Report (Ref: par. .33)

.A34 This section does not require a standardized format for reporting on all agreed-upon procedures engagements. Instead, it identifies the basic elements that the report is to include. The report is tailored to the specific engagement circumstances. The practitioner may use headings, separate paragraphs, paragraph numbers, typographical devices (for example, the bolding of text), and other mechanisms to enhance the clarity and readability of the report.

Content of the Practitioner's Agreed-Upon Procedures Report

Title (Ref: par. .35a)

.A35 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 of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent practitioner's report from reports issued by others.

Identification of the Subject Matter or Assertion (Ref: par. .35c)

.A36 A practitioner may be asked to apply agreed-upon procedures to more than one subject matter or assertion. In these engagements, the practitioner may issue one practitioner's report that refers to all subject matter covered or assertions presented. Section 315 contains an example of language that may be used in the introductory paragraph to address such circumstances.⁵

Statement When the Subject Matter Consists of Elements, Accounts, or Items of a Financial Statement (Ref: par. .35j)

.A37 If the subject matter consists of elements, accounts, or items of a financial statement, the practitioner's report might, instead, state that the agreed-upon procedures do not constitute an audit (or a review) of financial statements or any part thereof, the objective of which is the expression of an opinion (or conclusion) on the financial statements or a part thereof.

Reservations or Restrictions Concerning Procedures or Findings (Ref: par. .35l)

.A38 The practitioner also may include explanatory paragraph(s) about matters such as the following:

- Disclosure of stipulated facts, assumptions, or interpretations (including the source thereof) used in the application of agreed-upon procedures
- Description of the condition of records, controls, or data to which the procedures were applied
- Explanation that the practitioner has no responsibility to update the practitioner's report
- Explanation that the sample may not be representative of the population

Restricted Use (Ref: par. .35m)

.A39 The purpose of the restriction on the use of the practitioner's report on applying agreed-upon procedures is to restrict its use to only those parties that have agreed upon the procedures performed and taken responsibility for the sufficiency of the procedures. Paragraph .38 describes the process for adding parties who were not originally contemplated in the agreed-upon procedures engagement.

.A40 In some cases, a restricted-use practitioner's report filed with regulatory agencies is required by law or regulation to be made available to the public as a matter of public record. Also, a regulatory agency, as part of its oversight responsibility for an entity, may require access to a restricted use report in which they are not named as a specified party.

Location (Ref: par. .35p)

.A41 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.

Responsible Party Refuses to Provide a Written Assertion (Ref: par. .36)

⁵ Paragraph .A32 of section 315, *Compliance Attestation*.

.A42 The disclosure in the practitioner's report required by paragraph .36 applies regardless of whether the engaging party is the responsible party.

.A43 The following is an example of the disclosure required by paragraph .36:

Attestation standards established by the American Institute of Certified Public Accountants require that we request a written statement from [*identify the responsible party*] stating that [*identify the subject matter*] to which we applied procedures has been accurately measured or evaluated. We requested that [*identify the responsible party*] provide such a statement but [*identify the responsible party*] refused to do so.

Adding Specified Parties (Nonparticipant Parties) (Ref: par. .38–.39)

.A44 Subsequent to the completion of the agreed-upon procedures engagement, a practitioner may be requested by the engaging party to consider the addition of another party as a specified party (a nonparticipant party). The practitioner may agree to add a nonparticipant party as a specified party, based on consideration of such factors as the identity of the nonparticipant party and the intended use of the practitioner's report. If the nonparticipant party is added after the practitioner has issued the report, the report may be reissued, or the practitioner may provide other written acknowledgment that the nonparticipant party has been added as a specified party.

Knowledge of Matters Outside Agreed-Upon Procedures (Ref: par. .41)

.A45 For example, if, during the course of applying agreed-upon procedures regarding an entity's internal control, the practitioner becomes aware of a material weakness by means other than performance of the agreed-upon procedures, this matter would be included in the practitioner's report.

.A46 When the practitioner applies agreed-upon procedures to an element, account, or item of a financial statement and has performed (or has been engaged to perform) an audit of the entity's related financial statements, and the auditor's report on such financial statements includes a departure from the standard report, the practitioner may include a reference to the auditor's report and the departure from the standard report in the practitioner's agreed-upon procedures report.

Documentation (Ref: par. .43)

.A47 The practitioner need not include in the engagement file superseded drafts of working papers, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

Exhibit—Illustrative Practitioner’s Agreed-Upon Procedures Reports

The illustrative practitioner’s agreed-upon procedures reports in this exhibit meet the applicable reporting requirements in paragraphs .33–.41. A practitioner may use alternative language in drafting an agreed-upon procedures report, provided that the language meets the applicable requirements in paragraphs .33–.41. Example 1 is an illustrative agreed-upon procedures report related to a Statement of Investment Performance Statistics. Examples 2–3 provide illustrations of reports in which the practitioner has applied agreed-upon procedures to elements, accounts, or items of a financial statement.

Example 1:Practitioner’s Agreed-Upon Procedures Report Related to a Statement of Investment Performance Statistics

Independent Accountant’s Report on Applying Agreed-Upon Procedures

[Appropriate Addressee]

We have performed the procedures enumerated below, which were agreed to by *[identify the specified party(ies), for example, the audit committees and managements of ABC Inc. and XYZ Fund]*, on *[identify the subject matter, for example, the accompanying Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 20X1]*. XYZ Fund’s management is responsible for *[identify the subject matter, for example, the Statement of Investment Performance Statistics for the year ended December 31, 20X1]*. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

[Include paragraphs to enumerate procedures and findings.]

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on *[identify the subject matter, for example, the accompanying Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 20X1]*. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

[Additional paragraph(s) may be added to describe other matters.]

This report is intended solely for the information and use of *[identify the specified party(ies), for example, the audit committees and managements of ABC Inc. and XYZ Fund]*, and is not intended to be, and should not be, used by anyone other than the specified parties.

[Practitioner’s signature]

[Practitioner’s city and state]

[Date of practitioner’s report]

Example 2: Practitioner’s Agreed-Upon Procedures Report Related to Cash and Accounts Receivable

Independent Accountant’s Report on Applying Agreed-Upon Procedures

[Appropriate Addressee]

We have performed the procedures enumerated below, which were agreed to by [identify the specified party(ies), for example, the boards of directors and managements of ABC Company and XYZ Company], on [identify the subject matter, for example, the cash and accounts receivable information of XYZ Company as of December 31, 20XX, included in the accompanying information provided to us by management of ABC Company]. XYZ Company is responsible for [identify the subject matter, for example, the cash and accounts receivable information of XYZ Company as of December 31, 20XX, included in the accompanying information provided to us by management of ABC Company]. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

Cash

1. For the four bank accounts listed below, we obtained
 - a. the December 31, 20XX, bank reconciliations from XYZ Company management and
 - b. the December 31, 20XX, general ledger from XYZ Company management.

2. We performed the following procedures:
 - a. Obtained a bank confirmation directly from each bank of the cash on deposit as of December 31, 20XX
 - b. Compared the balance confirmed by the bank to the amount shown on the respective bank reconciliations.
 - c. Mathematically checked the bank reconciliations
 - d. Compared the cash balances per book listed in the reconciliations below to the respective general ledger account balances.

<u>Cash December 31, 20XX</u>	
<i>Bank</i>	<i>Cash Balance per Book</i>
DEF National Bank, general ledger account 123	\$5,000
LMN State Bank, general ledger account 124	3,776
RST Trust Company regular account, general	86,912

ledger account 125	
RST Trust Company payroll account, general ledger account 126	<u>5,000</u>
	<u>\$110,688</u>

We found no exceptions as a result of the procedures.

Accounts Receivable

3. We obtained the accounts receivable aged trial balance as of December 31, 20XX, from XYZ Company (attached as exhibit A). We mathematically checked that the individual customer account balance subtotals in the aged trial balance of accounts receivable agreed to the total accounts receivable per the aged trial balance. We compared the total accounts receivable per the accounts receivable aged trial balance to the total accounts receivable per general ledger account 250.

We found no exceptions as a result of the procedures.

4. We obtained the accounts receivable subsidiary ledger as of December 31, 20XX, from XYZ Company. We compared the individual customer account balance subtotals shown in the accounts receivable aged trial balance (exhibit A) as of December 31, 20XX, to the balances shown in the accounts receivable subsidiary ledger.

We found no exceptions as a result of the procedures.

5. We selected 50 customer account balances from exhibit A by starting at the eighth item and selecting every fifteenth item thereafter until 50 were selected. The sample size selected represents 9.8 percent of the aggregate amount of the customer account balances. We obtained the corresponding invoices from XYZ Company and traced the aging (according to invoice dates) for the 50 customer account balances shown in exhibit A to the details of outstanding invoices in the accounts receivable subsidiary ledger.

We found no exceptions as a result of the procedures.

6. We mailed confirmations directly to the customers representing the 150 largest customer account balance subtotals selected from the accounts receivable aged trial balance, and we received responses as indicated below. As agreed, any individual differences in a customer account balance of less than \$300 were to be considered minor, and no further procedures were performed.

Of the 150 customer balances confirmed, we received responses from 140 customers; 10 customers did not reply.

No exceptions were identified in 120 of the confirmations received. The differences in the remaining 20 confirmation replies were less than \$300.

For the 10 customers that did not reply, we traced the items constituting the outstanding customer account balance to invoices and supporting shipping documents.

A summary of the confirmation results according to the respective aging categories is as follows.

Accounts Receivable December 31, 20XX			
<i>Aging Categories</i>	<i>Customer Account Balances</i>	<i>Confirmations Requested</i>	<i>Confirmations Received</i>
Current	\$156,000	\$ 76,000	\$ 65,000
Past due:			
Less than one month	60,000	30,000	19,000
One to three months	36,000	18,000	10,000
Over three months	48,000	<u>48,000</u>	<u>8,000</u>
	<u>\$300,000</u>	<u>\$172,000</u>	<u>\$102,000</u>

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on *[identify the subject matter, for example, the cash and accounts receivable information of XYZ Company as of December 31, 20XX, included in the accompanying information provided to us by management of ABC Company]*. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

[Additional paragraph(s) may be added to describe other matters.]

This report is intended solely for the information and use of *[identify the specified party(ies), for example, the boards of directors and managements of ABC Company and XYZ Company]*, and is not intended to be and should not be used by anyone other than the specified parties.

[Practitioner’s signature]

[Practitioner’s city and state]

[Date of practitioner’s report]

Example 3: Practitioner’s Agreed-Upon Procedures Report in Connection With Claims of Creditors

Independent Accountant’s Report on Applying Agreed-Upon Procedures

[Appropriate Addressee]

We have performed the procedures enumerated below, which were agreed to by *[identify the specified party(ies), for example, the Trustee of XYZ Company]*, on *[identify the subject matter, for example, the claims of creditors of XYZ Company as of May 31, 20XX, as set forth in the accompanying Schedule A]*. XYZ Company is responsible for maintaining records of *[identify the subject matter, for example, the claims of creditors of XYZ Company as of May 31, 20XX, as set forth in the accompanying Schedule A]*. The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation

regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

1. Obtained the general ledger and the accounts payable trial balance as of May 31, 20XX, from XYZ Company. Compared the total of the accounts payable trial balance to the total accounts payable balance in general ledger account 450.

The total of the accounts payable trial balance agreed with the total accounts payable balance in the general ledger account number 450.

2. Obtained the claim form submitted by creditors in support of the amounts claimed from XYZ Company. Compared the creditor name and amounts from the claim form to the respective name and amounts shown in the accounts payable trial balance obtained in procedure 1. For any differences identified, requested XYZ Company to provide supporting detail. Compared such identified differences to the supporting detail provided.

All differences noted are presented in column 3 of Schedule A. Except for those amounts shown in column 4 of Schedule A, all such differences were agreed to [*describe supporting detail*].

3. Using the claim form obtained in procedure 2, compared the name and amount to invoices, and if applicable, receiving reports, provided by XYZ Company.

No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on [*identify the subject matter, for example the claims of creditors of XYZ Company as of May 31, 20XX, as set forth in the accompanying Schedule A*]. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

[*Additional paragraph(s) may be added to describe other matters.*]

This report is intended solely for the information and use of [*identify the specified party(ies), for example, the Trustee of XYZ Company*], and is not intended to be, and should not be, used by anyone other than the specified party.

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of practitioner's report*]

AT-C Section 300

Subject Matter

AT-C Section 305*

Prospective Financial Information

Introduction

.01 This section contains performance and reporting requirements and application guidance for a practitioner examining or performing agreed-upon procedures on prospective financial information.

.02 Prospective financial information can take the form of prospective financial statements or partial presentations.

.03 The AICPA Guide *Prospective Financial Information* (guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, “Preparation Guidelines,” chapter 7, “Reasonably Objective Basis,” chapter 8, “Presentation Guidelines,” and chapter 9, “Illustrative Prospective Financial Statements,” of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information and interpretive guidance for applying this section.

.04 In addition to complying with this section, a practitioner is required to comply with section 105, *Concepts Common to All Attestation Engagements*, and either section 205, *Examination Engagements*, for examinations of prospective financial information, or section 215, *Agreed-Upon Procedures Engagements*, for agreed-upon procedures engagements that address prospective financial information. In some cases, this section repeats or refers to requirements found in sections 105, 205, and 215 when describing those requirements in the context of engagements that address prospective financial information. Although not all the requirements in sections 105, 205, and 215 are repeated or referred to in this section, the practitioner is responsible for complying with all the requirements in sections 105 and 205, or 105 and 215, as applicable.

.05 Section 210, *Review Engagements*, prohibits a practitioner from performing a review of prospective financial information.¹

Effective Date

* This section contains an “AT-C” identifier, instead of an “AT” identifier, to avoid confusion with references to existing “AT” sections, which remain effective through April 2017, in AICPA *Professional Standards*.

¹ Paragraph .07 of section 210, *Review Engagements*.

.06 This section is effective for practitioners' examination and agreed-upon procedures reports on prospective financial information dated on or after May 1, 2017.

Objectives of an Examination Engagement

.07 In conducting an examination of prospective financial information, the objectives of the practitioner are to

- a. obtain reasonable assurance about whether, in all material respects,
 - i. the prospective financial information is presented in accordance with the guidelines for the presentation of prospective financial information established by the AICPA (AICPA presentation guidelines) (Ref: par. .A1) and
 - ii. the assumptions underlying the forecast are suitably supported and provide a reasonable basis for the responsible party's forecast, or the assumptions underlying the projection are suitably supported and provide a reasonable basis for the responsible party's projection, given the hypothetical assumptions. (Ref: par. .A2)
- b. express an opinion in a written report on the matters in paragraph .07a.

Objectives of an Agreed-Upon Procedures Engagement

.08 In conducting an agreed-upon procedures engagement for which the subject matter is prospective financial information, the objectives of the practitioner are to

- a. apply to the prospective financial information procedures that are established by specified parties who are responsible for the sufficiency of the procedures for their purposes and
- b. issue a written report that describes the procedures applied and the practitioner's findings.

Definitions

.09 For purposes of this section, the following terms have the meanings attributed as follows:²

Entity. Any unit, existing or to be formed, for which financial statements could be prepared in accordance with generally accepted accounting principles or special purpose frameworks. For example, an entity can be an individual, partnership, corporation, trust, estate, association, or governmental unit. (Ref: par. .A3)

Financial forecast. Prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position,

² All definitions in this section, with the exception of the term *presentation guidelines*, are taken from chapter 3, "Definitions," of the AICPA guide *Prospective Financial Information*.

results of operations, and cash flows. A financial forecast is based on the responsible party's assumptions reflecting conditions it expects to exist and the course of action it expects to take. A financial forecast may be expressed in specific monetary amounts as a single-point estimate of forecasted results or as a range, when the responsible party selects key assumptions to form a range within which it reasonably expects, to the best of its knowledge and belief, the item or items subject to the assumptions to actually fall. If a forecast contains a range, the range is not selected in a biased or misleading manner (for example, a range in which one end is significantly less expected than the other). (Ref: par. .A4)

Financial projection. Prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and cash flows. A financial projection is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to a question such as, "What would happen if...?" A financial projection is based on the responsible party's assumptions reflecting conditions it expects would exist and the course of action it expects would be taken, given one or more hypothetical assumptions. A projection, like a forecast, may contain a range. (Ref: par. .A5–.A6)

Guide. The AICPA Guide *Prospective Financial Information*.

Hypothetical assumption. An assumption used in a financial projection or in a partial presentation of projected information to present a condition or course of action that is not necessarily expected to occur, but is consistent with the purpose of the projection.

Key factors. The significant matters on which an entity's future results are expected to depend. Such factors are basic to the entity's operations and, thus, encompass matters that affect, among other things, the entity's sales, production, service, and financing activities. Key factors serve as a foundation for prospective financial information and are the bases for the assumptions.

Partial presentation. A presentation of prospective financial information that excludes one or more of the applicable items required for prospective financial statements as described in chapter 8 of the guide. (Ref: par. .A7)

Presentation guidelines. The criteria for the presentation and disclosure of prospective financial information. (Ref: par. .A8)

Prospective financial information. Any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts.

Prospective financial statements. Either financial forecasts or financial projections, including the summaries of significant assumptions and accounting policies. Although prospective financial statements may cover a period that has partially expired,

statements for periods that have completely expired are not considered to be prospective financial statements. Pro forma financial statements and partial presentations are not considered to be prospective financial statements. (Ref: par. .A9–.A10)

Requirements

Preconditions for an Examination Engagement

.10 Because a financial projection is not appropriate for general use, a practitioner should not agree to the use of the practitioner's name in conjunction with a financial projection that the practitioner believes will be distributed to those who will not be negotiating directly with the responsible party. (Ref: par. .A4–.A5 and .A11)

.11 Unless required by law or regulation to do so, a practitioner should not accept an engagement to examine

- a.* a forecast or projection, unless the responsible party has agreed to disclose the significant assumptions
- b.* a financial projection, unless the responsible party has agreed to identify in the presentation which of the assumptions are hypothetical and to describe the limitations on the usefulness of the projection.
- c.* a partial presentation that does not describe the limitations on the usefulness of the presentation.

.12 A practitioner should not examine a forecast or projection that discloses none of the significant assumptions. If after accepting the engagement the practitioner determines that the forecast or projection discloses none of the significant assumptions, the practitioner should withdraw from the engagement, unless required by law or regulation to report on the financial forecast or projection, in which case, the practitioner should express an adverse opinion in the practitioner's report.

.13 If after accepting the engagement, the practitioner determines that the forecast or projection fails to disclose one or more of the significant assumptions, the practitioner should describe the assumption(s) in the practitioner's report and express an adverse opinion.

.14 If after accepting the engagement the practitioner determines that a projection fails to identify which of the assumptions are hypothetical or describe the limitations on the usefulness of the projection, the practitioner should withdraw from the engagement, unless required by law or regulation to report on the projection, in which case, the practitioner should express an adverse opinion in the practitioner's report.

Training and Proficiency

.15 The practitioner should understand the guidelines for the preparation and presentation of prospective financial statements contained in the guide.

.16 The practitioner should possess or obtain a level of knowledge of the industry and the accounting principles and practices of the industry in which the entity operates, or will operate, that will enable the practitioner to examine prospective financial information that is appropriate for an entity operating in that industry.

.17 The practitioner should obtain knowledge of the key factors on which the entity's prospective financial information is based. (Ref: par. .A12)

Requesting a Written Assertion

.18 The practitioner should request from the responsible party a written assertion. If the responsible party refuses to provide a written assertion, the practitioner should withdraw from the engagement when withdrawal is possible under applicable law or regulation. (Ref: par. .A13)

Planning

.19 In accordance with section 205, the practitioner should establish an overall engagement strategy that sets the scope, timing, and direction of the engagement and guides the development of the engagement plan.³ (Ref: par. .A14)

Examination Procedures

.20 The examination procedures should be based on the practitioner's consideration of the following:

- a. The nature and materiality of the information to the prospective financial information taken as a whole
- b. The likelihood of material misstatements
- c. Knowledge obtained during current and previous engagements
- d. The responsible party's competence with respect to prospective financial information
- e. The extent to which the prospective financial information is affected by the responsible party's judgment, for example, its judgment in selecting the significant assumptions used to prepare the prospective financial information
- f. The support for the responsible party's assumptions

³ Paragraph .11 of section 205, *Examination Engagements*.

.21 The practitioner should evaluate whether the responsible party has a reasonably objective basis for the forecast and should consider whether sufficiently objective assumptions can be developed for each key factor. (Ref: par. .A15)

.22 The practitioner should perform those procedures the practitioner considers necessary in the circumstances to report on whether the assumptions underlying the forecast are suitably supported and provide a reasonable basis for the forecast, or whether the assumptions underlying the projection are suitably supported and provide a reasonable basis for the projection, given the hypothetical assumptions. (Ref: par. .A16–.A17)

.23 The practitioner should evaluate the support for the significant assumptions individually and in the aggregate. Assumptions are suitably supported if the preponderance of the information supports each significant assumption. In an examination of a projection, the practitioner need not obtain support for the hypothetical assumptions, although the practitioner should evaluate whether they are consistent with the purpose of the presentation. (Ref: par. .A18–.A20)

.24 In an evaluation of whether the assumptions provide a reasonable basis for the forecast, the practitioner should evaluate the assumptions in the aggregate. If certain assumptions do not have a material effect on the presentation, they may not have to be individually evaluated. Nonetheless, the practitioner should evaluate the aggregate effect of individually insignificant assumptions in making the practitioner's overall evaluation.

.25 The practitioner should evaluate the assumptions related to an expired portion of the prospective period. (Ref: par. .A21–.A23)

.26 In evaluating the preparation and presentation of the prospective financial information, the practitioner should perform procedures to obtain reasonable assurance about whether the

- a.* presentation reflects the identified assumptions,
- b.* computations made to translate the assumptions into prospective amounts are mathematically accurate,
- c.* assumptions are internally consistent,
- d.* accounting principles used in the forecast or projection are appropriate, (Ref: par. .A24)
- e.* prospective financial information is presented in accordance with the AICPA presentation guidelines, and
- f.* assumptions have been adequately disclosed in accordance with the AICPA presentation guidelines.

.27 The practitioner should conclude whether the prospective financial information, including related disclosures, should be revised because of any of the following: (Ref: par. .A25)

- a.* Mathematical errors

- b. Unreasonable or internally inconsistent assumptions
- c. Inappropriate or incomplete presentation
- d. Inadequate disclosure

Written Representations in an Examination Engagement

.28 In an examination of a forecast, in addition to the written representations from the responsible party required by section 205, the practitioner should request from the responsible party written representations that⁴

- a. the forecast presents the expected financial position, results of operations, and cash flows for the forecast period and that the forecast reflects the responsible party's judgment, based on present circumstances, of the expected conditions and its expected course of action;
- b. the assumptions on which the forecast is based are reasonable and suitably supported; and
- c. if the forecast contains a range, the item or items subject to the assumptions are reasonably expected to fall within the range and that the range was not selected in a biased or misleading manner.

.29 In an examination of a projection, in addition to the written representations from the responsible party required by section 205, the practitioner should request from the responsible party written representations that⁵

- a. identify the hypothetical assumptions;
- b. identify which of the hypothetical assumptions, if any, are improbable;
- c. describe the limitations of the usefulness of the presentation;
- d. the projection presents the expected financial position, results of operations, and cash flows for the projection period given the hypothetical assumptions, and that the projection reflects the responsible party's judgment, based on present circumstances, of expected conditions and its expected course of action given the occurrence of the hypothetical events;
- e. the assumptions other than the hypothetical assumptions are reasonable, given the hypothetical assumptions, and are suitably supported; and

⁴ Paragraph .50 of section 205.

⁵ See footnote 4.

- f. if the projection contains a range, given the hypothetical assumptions, the item or items subject to the assumption are reasonably expected to actually fall within the range and that the range was not selected in a biased or misleading manner.

.30 In an examination of prospective financial information, the written representation required by section 205 regarding whether the subject matter is in accordance with (or based on) the criteria should indicate that the forecast (or projection) is presented in accordance with (or based on) the guidelines for the presentation of a financial forecast (or financial projection) established by the American Institute of Certified Public Accountants.⁶ (Ref: par. .A26)

.31 In an examination of prospective financial information, the practitioner should request from the responsible party the written representations required by section 205 and paragraphs .28 or .29 of this section, as applicable, even if the engaging party is not the responsible party.⁷ The alternative to obtaining the required written representations provided for in section 205 is not permitted in an engagement to examine prospective financial information.⁸ The responsible party's refusal to furnish the written representations required by section 205 and paragraphs .28 or .29 of this section, as applicable, constitutes a limitation on the scope of the engagement sufficient to preclude an unmodified opinion and may be sufficient to cause the practitioner to withdraw from the examination engagement, when withdrawal is possible under applicable laws and regulations.⁹

Content of the Practitioner's Examination Report

.32 The practitioner's examination report on prospective financial information should include the following, unless the practitioner is disclaiming an opinion, in which case, items .32f, and .32g should be omitted: (Ref: par. .A27–.A30)

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. An identification of the prospective financial information being reported on, including the period of time to which the prospective financial information relates.
- d. An indication that the criteria against which the prospective financial information was measured or evaluated are the guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants.
- e. A statement that identifies
 - i. the responsible party and its responsibility for preparing and presenting the prospective financial information in accordance with the guidelines for the

⁶ Paragraph .50a of section 205.

⁷ See footnote 4.

⁸ Paragraph .51 of section 205.

⁹ Paragraphs .50, .55, and .A64 of section 205.

- presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants.
- ii. the practitioner's responsibility is to express an opinion on the prospective financial information, based on the practitioner's examination.
- f.* A statement that
- i. the practitioner's examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii. those standards require that the practitioner plan and perform the examination to obtain reasonable assurance about whether the forecast (or projection) is presented in accordance with the guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants, in all material respects.
 - iii. the practitioner believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the practitioner's opinion.
- g.* A description of the nature of an examination engagement.
- h.* The practitioner's opinion about whether the forecast (or projection) is presented, in all material respects, in accordance with the guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants, and whether the underlying assumptions are suitably supported and provide a reasonable basis for the forecast or a reasonable basis for the projection given the hypothetical assumptions.
- i.* A statement indicating that the prospective results may not be achieved and describing other significant inherent limitations, if any.
- j.* A statement that the practitioner has no responsibility to update the report for events and circumstances occurring after the date of the report.
- k.* The manual or printed signature of the practitioner's firm.
- l.* The city and state where the practitioner practices.
- m.* 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
- i. the attestation documentation has been reviewed,
 - ii. the prospective financial information has been prepared, and

iii. the responsible party has provided a written assertion.)

.33 When a practitioner examines a projection, the practitioner's opinion regarding the assumptions should be conditioned on the hypothetical assumptions, that is, the practitioner should express an opinion on whether the assumptions provide a reasonable basis for the projection, given the hypothetical assumptions. In addition to the required elements for a practitioner's report on an examination of a forecast, a report on an examination of a projection should include (Ref: par. .A27 and .A31–.A32)

- a. an identification of the hypothetical assumptions,
- b. a description of the special purpose for which the projection was prepared, and
- c. an alert, in a separate paragraph, that restricts the use of the report. The alert should
 - i. state that the report is intended solely for the information and use of the specified parties,
 - ii. identify the specified parties for whom use is intended, and
 - iii. state that the report is not intended to be, and should not be, used by anyone other than the specified parties.
- d. When the engagement is also performed in accordance with *Government Auditing Standards*, the alert that restricts the use of the report should include the following information, rather than the information required by paragraph .33c:
 - i. a description of the purpose of the report, and
 - ii. a statement that the report is not suitable for any other purpose.

.34 When the prospective financial information contains a range, the practitioner's report should also include a separate paragraph that states that the responsible party has elected to portray the expected results of one or more assumptions as a range. (Ref: par. .A27 and .A33)

Modified Opinions

.35 The following are circumstances that require the practitioner to modify the opinion and the type of modified opinion the practitioner should express in each circumstance: (Ref: par. .A34–.A38)

- a. If, in the practitioner's judgment, the prospective financial information materially departs from AICPA presentation guidelines, the practitioner should express a qualified or adverse opinion. (Ref: par. .A35–.A36)

- b. If the prospective financial information fails to disclose assumptions that, in the practitioner's professional judgment, are significant, or misapplies the accounting principles, the practitioner should express an adverse opinion. (Ref: par. .A37)
- c. If the practitioner believes that one or more significant assumptions are not suitably supported or do not provide a reasonable basis for the forecast, or for the projection given the hypothetical assumptions, the practitioner should express an adverse opinion. (Ref: par. .A37)
- d. If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner should disclaim an opinion and describe the scope limitation in the practitioner's report. (Ref: par. .A38)

Partial Presentations

.36 When examining a partial presentation, the practitioner should give appropriate consideration to whether key factors affecting elements, accounts, or items that are interrelated with those in the partial presentation have been considered, including key factors that may not necessarily be obvious to the user of a partial presentation (for example, production capacity relative to a sales forecast), and whether all significant assumptions have been disclosed. (Ref: par. .A39–.A40 and .A29)

.37 Because partial presentations are generally appropriate only for limited use, practitioners' reports on partial presentations of both forecasted and projected financial information should include a description of any limitations on the usefulness of the presentation.

Preconditions for an Agreed-Upon Procedures Engagement

.38 In addition to determining that the preconditions for accepting or continuing an agreed-upon procedures engagement enumerated in section 105 and section 215 are met, the practitioner should not perform an agreed-upon procedures engagement on a forecast or projection unless the prospective financial information includes a summary of significant assumptions.

Content of the Practitioner's Agreed-Upon Procedures Report

.39 The practitioner's report on the application of agreed-upon procedures to a forecast or projection should include the following: (Ref: par. .A41–.A42)

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. An identification of the prospective financial information and the nature of an agreed-upon procedures engagement.
- d. An identification of the specified parties.

- e.* A statement that the procedures performed were those agreed to by the specified parties identified in the report.
- f.* A statement that identifies the responsible party and its responsibility for preparing and presenting the forecast (or projection) in accordance with the guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants.
- g.* A statement that
 - i.* the sufficiency of the procedures is solely the responsibility of the parties specified in the report.
 - ii.* the practitioner makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose.
- h.* A list of the procedures performed (or reference thereto) and related findings. (The practitioner should not provide a conclusion.)
- i.* When applicable, a description of any agreed-upon materiality limits.
- j.* A statement that
 - i.* the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii.* the practitioner was not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or a conclusion, respectively, on
 - (1) whether the presentation of the forecast (or projection) is in accordance with guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants,
 - (2) whether the underlying assumptions are suitably supported, and
 - (3) whether the underlying assumptions provide a reasonable basis for the forecast or a reasonable basis for the projection given the hypothetical assumptions.
 - iii.* the practitioner does not express such an opinion or conclusion.
 - iv.* had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported.

- k. When applicable, a description of the nature of the assistance provided by a practitioner's external specialist.
- l. A statement indicating that the prospective results may not be achieved and describing other significant inherent limitations, if any.
- m. A statement that the practitioner has no responsibility to update the report for events and circumstances occurring after the date of the report.
- n. When applicable, reservations or restrictions concerning procedures or findings.
- o. An alert, in a separate paragraph, that restricts the use of the report. The alert should
 - i. state that the report is intended solely for the information and use of the specified parties,
 - ii. identify the specified parties for whom use is intended, and
 - iii. state that the report is not intended to be, and should not be, used by anyone other than the specified parties.
- p. When the engagement is also performed in accordance with *Government Auditing Standards*, the alert that restricts the use of the report should include the following information, rather than the information required by paragraph .39o.
 - i. A description of the purpose of the report
 - ii. A statement indicating that the report is not suitable for any other purpose
- q. The manual or printed signature of the practitioner's firm.
- r. The city and state where the practitioner practices.
- s. The date of the report. (The report should be dated no earlier than the date on which the practitioner completed the procedures and determined the findings, including that
 - i. the attestation documentation has been reviewed,
 - ii. the prospective financial information has been prepared, and
 - iii. the responsible party has provided a written assertion, unless the responsible party refuses to provide an assertion.)

Application and Other Explanatory Material

Objectives of an Examination Engagement (Ref: par. .07a)

.A1 The practitioner’s objective in an examination of prospective financial information is to obtain sufficient appropriate evidence to reduce attestation risk to a level that is, in the practitioner’s professional judgment, acceptably low to express an opinion about whether the prospective financial information is presented in accordance with AICPA presentation guidelines and the assumptions are suitably supported and provide either a reasonable basis for the responsible party’s forecast or a reasonable basis for the responsible party’s projection, given the hypothetical assumptions. The practitioner’s opinion does not address whether the prospective results can be achieved because events and circumstances frequently do not occur as expected, and achievement of the prospective results is dependent on the actions, plans, and assumptions of the responsible party.

.A2 The concept of *suitably supported* is discussed in paragraphs .23 and .A18–.A20.

Definitions

Entity (Ref: par. .09)

.A3 The term *entity* is used elsewhere in the attestation standards. However, the definition of the term *entity* in paragraph .09 is applicable only to this section.

Financial Forecast (Ref: par. .09–.10)

.A4 As indicated in chapter 4, “Types of Prospective Financial Information and Their Uses,” of the guide, prospective financial statements are for either general use or limited use. *General use of prospective financial statements* refers to the use of the statements by persons with whom the responsible party is not negotiating directly—for example, in an offering statement of an entity’s debt or equity interests. Because recipients of prospective financial statements distributed for general use are unable to ask the responsible party directly about the presentation, the presentation most useful to them is one that portrays, to the best of the responsible party’s knowledge and belief, the expected results. Thus, only a financial forecast is appropriate for general use.

Financial Projection (Ref: par. .09–.10)

.A5 *Limited use of prospective financial statements* refers to the use of prospective financial statements by the responsible party alone or by the responsible party and third parties with whom the responsible party is negotiating directly. Examples include use in negotiations for a bank loan, submission to a regulatory agency, and use solely within the entity. Third-party recipients of prospective financial statements intended for limited use can ask questions of the responsible party and negotiate terms directly with it. Any type of prospective financial statements that would be useful in the circumstances would normally be appropriate for limited use. Thus, the presentation may be a financial forecast or a financial projection.

.A6 Generally, as the number or significance of the hypothetical assumptions increases, the less likely that it is appropriate for the responsible party to present a financial projection.

Partial Presentation (Ref: par. .09)

.A7 Chapter 23, “Partial Presentations of Prospective Financial Information,” of the guide establishes a limitation on the use of partial presentations. Chapter 23 of the guide states, in part

...partial presentations are not ordinarily appropriate for general use. Accordingly, a partial presentation ordinarily should not be distributed to third parties who will not be *negotiating directly* with the responsible party (for example, in an offering document for an entity's debt or equity interests). In this context, negotiating directly is defined as a third-party user's ability to ask questions of, and negotiate the terms or structure of a transaction directly with, the responsible party.

Presentation Guidelines (Ref: par. .09)

.A8 Chapter 8 of the guide contains the guidelines for the presentation and disclosure of prospective financial information.

Prospective Financial Statements (Ref: par. .09)

.A9 Prospective financial statements may take the form of complete financial statements or may be summarized or condensed, as described in chapter 8 of the guide. Presentations that exclude one or more relevant elements described in that section are defined as *partial presentations*. For the purposes of this section, the term *forecast* used alone means forecasted information, which can be either a full presentation (a financial forecast) or a partial presentation. The term *projection* can refer to either a financial projection or a partial presentation of projected information.

.A10 The objective of pro forma financial information is to show what the significant effects on the historical financial statements might have been had a consummated or proposed transaction or event occurred at an earlier date. Although the transaction in question might be prospective, this section does not apply to such presentations because they are essentially historical financial statements and do not purport to be prospective financial statements. See section 310, *Reporting on Pro Forma Financial Information*.

Preconditions for an Examination Engagement (Ref: par. .10)

.A11 Paragraph .10 indicates that it is not appropriate for a practitioner to agree to the use of the practitioner's name in conjunction with a financial projection that the practitioner believes will be distributed to those who will not be negotiating directly with the responsible party. An example of such a situation is the inclusion of a financial projection in an offering statement of an entity's debt or equity interests, unless the projection is used to supplement a financial forecast for the period covered by the forecast (that is, the financial projection would be

presented in the same document as the financial forecast and the period covered by the projection would not begin before, or extend beyond, the period covered by the forecast).

Training and Proficiency (Ref: par. .17)

.A12 In obtaining knowledge of the entity's business, accounting policies, and the key factors upon which its future financial results appear to depend, the practitioner may focus on areas such as the following:

- The availability and cost of resources needed to operate, for example, raw materials, labor, short-term and long-term financing, and plant and equipment.
- The nature and condition of markets in which the entity sells its goods or services, including final consumer markets if the entity sells to intermediate markets
- Factors specific to the industry, including competitive conditions, sensitivity to economic conditions, accounting policies, specific regulatory requirements, and technology
- Patterns of past performance for the entity or comparable entities, including trends in revenue and costs, turnover of assets, uses and capacities of physical facilities, and management policies

Requesting a Written Assertion (Ref: par. .18)

.A13 Paragraph .18 applies regardless of whether the responsible party is the engaging party.

Planning (Ref: par. .19)

.A14 Factors that may be considered by the practitioner in planning the examination of prospective financial information include the following:

- The financial reporting framework to be used and the type of presentation
- Preliminary judgments about materiality levels
- Items within the prospective financial information that are subject to risk of material misstatement
- Conditions that may require extension or modification of the practitioner's examination procedures
- Knowledge of the entity's business and its industry
- The responsible party's experience in preparing prospective financial information

- The length of the period covered by the prospective financial information
- The process by which the responsible party develops its prospective financial information

Examination Procedures (Ref: par. .21–.23 and .25, .26d, and .27)

.A15 Chapter 7 of the guide indicates that a reasonably objective basis for a forecast cannot exist if the premise on which the assumptions are based is too subjective. A forecast has to be based on a realistic premise, which has to be supportable. In contrast, the basic premise for a projection does not have to be supportable, although the hypothetical assumptions should be consistent with the purpose of the presentation. Accordingly, in a projection, the responsible party need not have a reasonably objective basis for the hypothetical assumptions.

.A16 Forecast. The practitioner can form an opinion that the assumptions provide a reasonable basis for the financial forecast if the responsible party represents that the presentation reflects, to the best of its knowledge and belief, its estimate of expected financial position, results of operations, and cash flows for the prospective period, and the practitioner concludes that, based on the practitioner’s examination, (a) the responsible party has explicitly identified all key factors expected to materially affect the operations of the entity during the prospective period and has developed appropriate assumptions with respect to such factors, and (b) the assumptions are suitably supported.

.A17 Projection. The practitioner can form an opinion that the assumptions provide a reasonable basis for the financial projection given the hypothetical assumptions if the responsible party represents that the presentation reflects, to the best of its knowledge and belief, expected financial position, results of operations, and cash flows for the prospective period given the hypothetical assumptions, and the practitioner concludes, based on the practitioner’s examination, that

- a. the responsible party has explicitly identified all key factors that would materially affect the operations of the entity during the prospective period if the hypothetical assumptions were to materialize and has developed appropriate assumptions with respect to such factors, and
- b. the other assumptions are suitably supported given the hypothetical assumptions. However, as the number and significance of the hypothetical assumptions increase, the practitioner may not be able to be satisfied about the presentation as a whole by obtaining support for the remaining assumptions.

.A18 A preponderance of information exists for an assumption if the weight of available information supports that assumption. Furthermore, because of the judgments involved in developing assumptions, different people may arrive at somewhat different, but equally reasonable, assumptions based on the same information.

.A19 In evaluating support for assumptions other than hypothetical assumptions in a projection, the practitioner can conclude that they are suitably supported if the preponderance of information supports each significant assumption given the hypothetical assumptions.

.A20 Appropriate considerations for forecasts and projections include whether

- a.* sufficient pertinent sources of information about the assumptions have been considered. Examples of external sources the practitioner might consider are government publications, industry publications, economic forecasts, existing or proposed legislation, and reports of changing technology. Examples of internal sources are budgets, labor agreements, patents, royalty agreements and records, sales backlog records, debt agreements, and actions of the board of directors involving entity plans.
- b.* the assumptions are consistent with the sources from which they are derived.
- c.* the assumptions are consistent with each other.
- d.* the historical financial information and other data used in developing the assumptions are sufficiently reliable for that purpose. Reliability can be assessed by inquiry and analytical or other procedures, some of which may have been completed in past audits or reviews of the historical financial statements.
- e.* the historical financial information and other data used in developing the assumptions are comparable over the periods specified or whether the effects of any lack of comparability were considered in developing the assumptions.
- f.* the logical arguments or theory, considered with the data supporting the assumptions, are reasonable.

.A21 The procedures the practitioner performs to evaluate these assumptions depends on

- the significance of the period,
- whether financial statements have been prepared for the expired period, and
- whether the forecast or projection incorporates the historical results.

.A22 The practitioner may obtain evidence regarding the actual results by applying audit or review procedures to the historical results.

.A23 At some point the historical results become such a large portion of the prospective results that the practitioner might consider it inappropriate to examine the prospective financial information.

.A24 Under the AICPA presentation guidelines, the accounting principles used in a financial projection need not be those expected to be used in the historical financial statements for the

prospective period if use of a different principle is consistent with the purpose of the presentation.

.A25 The practitioner's consideration of materiality is discussed in section 205.¹⁰ Materiality is a concept that is judged in light of the expected range of reasonableness of the information; therefore, users would not expect prospective financial information (information about events that have not yet occurred) to be as precise as historical information.

Written Representations in an Examination Engagement (Ref: par. .30)

.A26 Section 205 requires the practitioner to request written representations from the responsible party, including a representation that it has disclosed to the practitioner all known matters contradicting the subject matter.¹¹ Because no one can know the future, "known matters," in the context of prospective financial information, refers to what the responsible party expects. The required disclosure in the written representations relates to assumptions that are not consistent with the responsible party's expectations, or in the case of a projection, not consistent with the responsible party's expectations given the occurrence of the hypothetical assumptions.

Content of the Practitioner's Examination Report (Ref: par. .32–.34, and .36)

.A27 The list of elements in paragraphs .32–.34 constitutes all the required elements for a practitioner's report on an examination of prospective financial information, including the elements required by section 205.¹² Application guidance regarding the elements of an examination report is included in section 205.¹³

.A28 Example 1 in the exhibit, "Illustrative Practitioner's Examination and Agreed-Upon Procedures Reports Related to Prospective Financial Information," to this section provides an illustration of a practitioner's report on an examination of a financial forecast.

.A29 The requirements in paragraph .32 are applicable to practitioners' reports on prospective financial statements and on partial presentations.

.A30 When the practitioner's examination of prospective financial information is part of a larger engagement, for example, a financial feasibility study or business acquisition study, the practitioner may expand the practitioner's report on the examination of the prospective financial information to describe the entire engagement. Chapter 17, "The Practitioner's Examination Report," of the guide addresses reporting when the examination engagement is part of a larger engagement.

¹⁰ Paragraph .16 of section 205.

¹¹ Paragraph .50c of section 205.

¹² Paragraphs .63–.66 of section 205.

¹³ Paragraphs .A78–.A101 of section 205.

.A31 Section 205 notes that the specified parties may be identified by naming them, referring to a list of them, or identifying them as a class.¹⁴

.A32 Example 2 in the exhibit to this section provides an illustration of a practitioner’s examination report on a financial projection.

.A33 The following is an example of a separate paragraph to be added to the practitioner’s report when the practitioner examines prospective financial statements, in this case, a forecast that contains a range:

As described in the summary of significant assumptions, management of XYZ Company has elected to portray forecasted [*describe the financial statement element or elements for which the expected results of one or more assumptions fall within a range, and identify assumptions expected to fall within a range, for example, revenue in the amounts of \$X,XXX and \$Y,YYY, which is predicated upon occupancy rates of XX percent and YY percent of available apartments*] rather than as a single point estimate. Accordingly, the accompanying forecast presents forecasted financial position, results of operations, and cash flows [*describe one or more assumptions expected to fall within a range, for example, “at such occupancy rates”*]. However, there is no assurance that the actual results will fall within the range of [*describe one or more assumptions expected to fall within a range, for example, occupancy rates*] presented.

Modified Opinions (Ref: par. .35)

.A34 Because of the nature, sensitivity, and interrelationship of prospective financial information, a user of a practitioner’s report may find it difficult to interpret a practitioner’s opinion that is qualified because of a misapplication of accounting principles, the failure to disclose a significant assumption, the unreasonableness of the underlying assumptions, an assumption that is not suitably supported, or a scope limitation. Using language such as “except for . . .” in the practitioner’s opinion about these items may result in misunderstanding by users of the report. For that reason, when a misapplication of accounting principles, a failure to disclose a significant assumption, an unreasonable assumption, an assumption that is not suitably supported, or a limitation on the scope of the practitioner’s examination has led the practitioner to conclude that the practitioner cannot express an unmodified opinion, paragraph .35 identifies the type of modified opinion to be expressed.

.A35 A qualified opinion may result from the failure to disclose matters (other than the significant assumptions) required by AICPA presentation guidelines, for example, the failure to disclose significant accounting policies, which is required by chapter 8 of the guide. (As indicated in paragraph .35*b*, the failure to disclose significant assumptions would result in an adverse opinion.)

¹⁴ Paragraph .A98 of section 205.

.A36 Section 205 indicates that a qualified opinion is expressed as being “except for the effects of the matter to which the qualification relates.”¹⁵ Section 205 also requires that the practitioner’s opinion be separated from any paragraphs emphasizing matters related to the subject matter or any other reporting responsibilities.¹⁶ Accordingly, the opinion paragraph would refer to a separate paragraph that describes the matter giving rise to the qualification. The following is an illustration of the separate paragraph that describes the matter giving rise to the qualification and the opinion paragraph when a financial forecast contains a departure from AICPA presentation guidelines:

The forecast does not disclose significant accounting policies. Disclosure of such policies is required by guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants.

In our opinion, except for the omission of the disclosures related to significant accounting policies as discussed in the preceding paragraph, the accompanying forecast is presented in accordance with the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions are suitably supported and provide a reasonable basis for management’s forecast.

.A37 In an adverse opinion, the practitioner’s opinion states that the presentation is not in accordance with the AICPA presentation guidelines and, when applicable, also states that in the practitioner’s opinion, the assumptions are not suitably supported and do not provide a reasonable basis for the prospective financial statements. The following are illustrative paragraphs for use when the practitioner expresses an adverse opinion because the financial forecast contains a significant assumption that is unreasonable:

As discussed under the caption “Sales” in the summary of significant forecast assumptions, the forecasted sales include, among other things, revenue from the Company’s federal defense contracts continuing at the current level. The Company’s present federal defense contracts will expire in March 20XX. No new contracts have been signed, and no negotiations are underway for new federal defense contracts. Furthermore, the federal government has entered into contracts with another company to supply the items being manufactured under the Company’s present contracts.

In our opinion, the accompanying forecast is not presented in accordance with the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants because management’s assumptions, as discussed in the preceding paragraph, are not suitably supported and do not provide a reasonable basis for management’s forecast.

.A38 In a disclaimer of opinion, the paragraph of the practitioner’s report that describes the matters giving rise to the opinion modification describes the respects in which the examination did not comply with attestation standards applicable to an examination engagement. The practitioner states that because of the respects in which the examination did not comply with

¹⁵ Paragraph .71 of section 205.

¹⁶ Paragraph .80 of section 205.

such standards, the scope of the examination was not sufficient to enable the practitioner to express, and the practitioner does not express, an opinion on the presentation of or the assumptions underlying the forecast or projection. The following is an illustrative report on an examination of prospective financial statements, in this case, a financial forecast, for which a significant assumption could not be evaluated.

We were engaged to examine the accompanying forecast of XYZ Company, which comprises the forecasted balance sheet as of December 31, 20XX, and the related forecasted statements of income, stockholders' equity, and cash flows for the year then ending. XYZ Company's management is responsible for preparing and presenting the forecast in accordance with the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants.

As discussed under the caption, "Income From Investee" in the summary of significant forecast assumptions, the forecast includes income from an equity investee constituting 23 percent of forecasted net income, which is management's estimate of the Company's share of the investee's income to be accrued for 20XX. The investee has not prepared a forecast for the year ending December 31, 20XX, and we were, therefore, unable to obtain suitable support for this assumption.

Because, as described in the preceding paragraph, we are unable to evaluate management's assumption regarding income from an equity investee and other assumptions that depend thereon, the scope of our work was not sufficient to express, and we do not express, an opinion with respect to the presentation of or the assumptions underlying the accompanying forecast.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Partial Presentations (Ref: par. .36)

.A39 Chapter 23 of the guide addresses partial presentations.

.A40 The practitioner's procedures on a partial presentation may be affected by the nature of the information presented. Many elements of prospective financial statements are interrelated. The nature and extent of the procedures performed in an examination of some partial presentations may need to be similar to the procedures performed in an examination of a full presentation of prospective financial statements. For example, the scope of a practitioner's procedures when the practitioner examines forecasted results of operations (a partial presentation) would likely be similar to that of procedures used for the examination of prospective financial statements because the practitioner would most likely need to consider the interrelationships of all accounts in the examination of results of operations.

Content of the Practitioner's Agreed-Upon Procedures Report (Ref: par. .39)

.A41 The list of elements in paragraph .39 constitutes all the required elements for a practitioner's report on the application of agreed-upon procedures to a forecast or projection,

including the elements required by section 215.¹⁷ Application guidance regarding the elements of an agreed-upon procedures report is included in section 215.¹⁸

.A42 Example 3 in the exhibit to this section provides an illustration of a practitioner's agreed-upon procedures report.

¹⁷ Paragraph .35 of section 215, *Agreed-Upon Procedures Engagements*

¹⁸ Paragraphs .A35–.A41 of section 215.

Exhibit—Illustrative Practitioner’s Examination and Agreed-Upon Procedures Reports Related to Prospective Financial Information

Example 1: Practitioner’s Examination Report on a Financial Forecast

The following is an illustrative practitioner’s report for an examination of a financial forecast that does not contain a range.

Independent Accountant’s Report

[*Appropriate Addressee*]

We have examined the accompanying forecast of XYZ Company, which comprises [*identify the statements, for example, the forecasted balance sheet as of December 31, 20XX, and the related forecasted statements of income, stockholders’ equity, and cash flows for the year then ending*], based on the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants. XYZ Company’s management¹ is responsible for preparing and presenting the forecast in accordance with the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants.² Our responsibility is to express an opinion on the forecast based on our examination.

Our 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 the forecast is presented in accordance with the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants, in all material respects. An examination involves performing procedures to obtain evidence about the forecast. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the forecast, 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.

In our opinion, the accompanying forecast is presented, in all material respects, in accordance with the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions are suitably supported and provide a reasonable basis for management’s forecast.

¹ If the responsible party is other than management, the references to management in this illustrative practitioner’s report would be changed to refer to the party who has responsibility for the assumptions.

² When the presentation is summarized as illustrated in exhibit 9-2 of the AICPA Guide *Prospective Financial Information*, this sentence might read, “We have examined the accompanying summarized forecast of XYZ Company as of December 31, 20XX, and for the year then ending...”

There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 2: Practitioner's Examination Report on a Financial Projection

The following is an illustrative practitioner's report for an examination of a financial projection that does not contain a range.

Independent Accountant's Report

[Appropriate Addressee]

We have examined the accompanying projection of XYZ Company, which comprises *[identify the statements, for example, the projected balance sheet as of December 31, 20XX, and the related projected statements of income, stockholders' equity, and cash flows for the year then ending]* based on the guidelines for the presentation of a projection established by the American Institute of Certified Public Accountants.¹ XYZ Company's management² is responsible for preparing and presenting the projection based on *[identify the hypothetical assumption, for example, the granting of the requested loan as described in the summary of significant assumptions]* in accordance with the guidelines for the presentation of a projection established by the American Institute of Certified Public Accountants. The projection was prepared for *[describe the special purpose, for example, the purpose of negotiating a loan to expand XYZ Company's plant]*. Our responsibility is to express an opinion on the projection based on our examination.

Our 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 the projection is presented in accordance with the guidelines for the presentation of a projection established by the American Institute of Certified Public Accountants, in all material respects. An examination involves performing procedures to obtain evidence about the projection. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks

¹ When the presentation is summarized as illustrated in exhibit 9-2 of the AICPA Guide *Prospective Financial Information*, this sentence might read, "We have examined the accompanying summarized projection of XYZ Company as of December 31, 20XX, and for the year then ending...."

² If the responsible party is other than management, the references to management in this illustrative practitioner's report would be changed to refer to the party who has responsibility for the assumptions.

of material misstatement of the projection, 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.

In our opinion, [*describe the hypothetical assumption(s), for example, assuming the granting of the requested loan for the purpose of expanding XYZ Company's plant as described in the summary of significant assumptions*] the projection referred to above is presented, in all material respects, in accordance with the guidelines for the presentation of a projection established by the American Institute of Certified Public Accountants, and the underlying assumptions are suitably supported and provide a reasonable basis for management's projection given the hypothetical assumption(s).

Even if [*identify the hypothetical assumption, for example, the loan is granted and the plant is expanded,*], there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying projection and this report are intended solely for the information and use of [*identify specified parties, for example, XYZ Company and DEF National Bank*], and are not intended to be and should not be used by anyone other than these specified parties.

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of practitioner's report*]

Example 3: Practitioner's Agreed-Upon Procedures Report Related to a Financial Forecast

The following is an illustrative practitioner's report for an engagement to apply agreed-upon procedures to a financial forecast.

Independent Accountant's Agreed-Upon Procedures Report

[*Appropriate Addressee*]

We have performed the procedures enumerated below, which were agreed to by [*identify the specified parties, for example, the boards of directors of XYZ Corporation and ABC Company*], on [*identify the statements, for example, the forecasted balance sheet as of December 31, 20XX and the related forecasted statements of income, stockholders' equity, and cash flows of DEF Company, a subsidiary of ABC Company, for the year then ending*]. DEF Company's management¹ is responsible for preparing and presenting the forecast in accordance with the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those

¹ If the responsible party is other than management, the references to management in this illustrative report would be changed to refer to the party who has responsibility for the assumptions.

parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

[Include paragraphs to enumerate procedures and findings.]

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, about whether the forecast is presented in accordance with the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants or whether the underlying assumptions are suitably supported or provide a reasonable basis for management's forecast. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

This report is intended solely for the information and use of *[identify the specified parties, for example, the boards of directors of ABC Company and XYZ Corporation]*, and is not intended to be, and should not be, used by anyone other than these specified parties.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

AT-C Section 310*

Reporting on Pro Forma Financial Information

Introduction

.01 This section contains performance and reporting requirements and application guidance for a practitioner examining or reviewing pro forma financial information.

.02 This section does not apply when

- a practitioner is performing agreed-upon procedures related to pro forma financial information. Section 105, *Concepts Common to All Attestation Engagements*, and section 215, *Agreed-Upon Procedures Engagements*, are applicable to such engagements.
- certain requesting parties request a comfort letter or ask a practitioner to perform procedures on pro forma financial information in connection with an offering. AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, *Professional Standards*), is applicable to such engagements.
- pro forma financial information is presented outside the basic financial statements but within the same document, and the practitioner is not engaged to report on the pro forma financial information. AU-C section 720, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*), and AU-C section 925, *Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933* (AICPA, *Professional Standards*), may be applicable to such engagements.
- for purposes of a more meaningful presentation, a transaction consummated after the balance sheet date is reflected in the historical financial statements (such as a revision of debt maturities or a revision of earnings per share calculations for a stock split).
- the applicable financial reporting framework requires the presentation of pro forma financial information in the financial statements or the accompanying notes. For example, generally accepted accounting principles require pro forma financial information in FASB *Accounting Standards Codification* (ASC) 805, *Business Combinations*, FASB ASC 250, *Accounting Changes and Error Corrections*, or, in some cases, pro forma financial information relating to subsequent events.

.03 In addition to complying with this section, a practitioner is required to comply with section 105 and either section 205, *Examination Engagements*, for examinations of pro forma

* This section contains an “AT-C” identifier, instead of an “AT” identifier, to avoid confusion with references to existing “AT” sections, which remain effective through April 2017 in AICPA *Professional Standards*.

financial information or section 210, *Review Engagements*, for reviews of pro forma financial information. In some cases, this section repeats or refers to requirements found in sections 105, 205, and 210 when describing those requirements in the context of an examination or review of pro forma financial information. Although not all the requirements in sections 105, 205, and 210 are repeated or referred to in this section, the practitioner is responsible for complying with all the requirements in sections 105, 205, and 210, as applicable.

Effective Date

.04 This section is effective for practitioners' examination and review reports on pro forma financial information dated on or after May 1, 2017.

Objectives of an Examination Engagement

.05 In conducting an examination of pro forma financial information, the objectives of the practitioner are to

- a. obtain reasonable assurance about whether, in accordance with (or based on) the criteria
 - i. management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), (Ref: par. .A1)
 - ii. and, in all material respects
 - (1) the related pro forma adjustments give appropriate effect to those assumptions, and
 - (2) the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts.
- b. express an opinion in a written report on the matters in paragraph .05a.

Objectives of a Review Engagement

.06 In conducting a review of pro forma financial information, the objectives of the practitioner are to

- a. obtain limited assurance about whether, in accordance with (or based on) the criteria, any material modifications should be made to
 - i. management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event),

- ii. the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or
 - iii. the pro forma amounts in order for them to reflect the proper application of those adjustments to the historical financial statement amounts.
- b. express a conclusion in a written report on the matters in paragraph .06a.

Definitions

.07 For the purposes of this section, the following terms have the meanings attributed as follows: (Ref: par. .A2–.A5)

Criteria for the preparation of pro forma financial information. The basis disclosed in the pro forma financial information that management used to develop the pro forma financial information, including the assumptions underlying the pro forma financial information. Paragraph .11 contains the attributes of suitable criteria for an examination or review of pro forma financial information.

Pro forma financial information. A presentation that shows what the significant effects on historical financial information might have been had a consummated or proposed transaction (or event) occurred at an earlier date.

Requirements

Preconditions for an Examination or Review Engagement

.08 In order to accept an attestation engagement to examine or review pro forma financial information, in addition to the preconditions for an attestation engagement included in sections 105 and 205, the practitioner¹

- a. should determine that the document that contains the pro forma financial information includes historical financial statements of the entity for the most recent year (or for the preceding year if financial statements for the most recent year are not yet available) or that such financial statements are readily available and, if pro forma financial information is presented for an interim period, the document also either includes historical interim financial information for that period (which may be presented in condensed form) or such interim information is readily available. In the case of a business combination, the document includes the relevant historical financial information for the significant constituent parts of the combined entity. (Ref: par. .A6–.A7)

¹ Paragraphs .24–.28 of section 105, *Concepts Common to All Attestation Engagements*, and paragraph .06 of section 205, *Examination Engagements*.

- b.* should determine that the historical financial statements of the entity (or in the case of a business combination, of each significant constituent part of the combined entity) on which the pro forma financial information is based, in the case of (Ref: par. .A7–.A8)
- i* an examination of pro forma financial information, have been audited, or
 - ii.* a review of pro forma financial information, have been audited or reviewed, (Ref: par. .A8)
- and the audit report (or the review report, if issued) is included in the document containing the pro forma financial information (or is readily available) to the extent that the historical financial information is included in the document pursuant to paragraph .08*a*.
- c.* will be able to obtain an appropriate level of knowledge of the accounting and financial reporting practices of the entity (or in the case of a business combination, of each significant constituent part of the combined entity) that will enable the practitioner to perform the procedures necessary to report on the pro forma financial information.

.09 The level of service provided by the practitioner on the pro forma financial information should not exceed that provided on the related historical financial statements. An examination can be performed on pro forma financial information only if the related historical financial statements were audited. A review can be performed on pro forma financial information only if the related historical financial statements were audited or reviewed. In the case of a business combination, the level of service provided by the practitioner on the pro forma financial information should not exceed the lowest level of service provided on the underlying historical financial statements of any significant constituent part of the combined entity. (Ref: par. .A9)

Requesting a Written Assertion

.10 The practitioner should request from management a written assertion. If management refuses to provide a written assertion, the practitioner should withdraw from the engagement when withdrawal is possible under applicable law or regulation (Ref: par. .A10)

Assessing the Suitability of the Criteria

.11 As required by section 105, the practitioner should determine whether management has used suitable criteria in preparing and presenting the pro forma financial information.² In assessing the suitability of the criteria, the practitioner should determine whether the criteria include, at a minimum, that

- a.* the financial information be extracted from audited or reviewed historical financial

² Paragraph .25*b*(ii) of section 105.

- statements;
- b.* the pro forma adjustments be
 - i.* directly attributable to the transaction (or event),
 - ii.* factually supportable, (Ref: par. .A11)
 - iii.* consistent with the entity's applicable financial reporting framework and its accounting policies under that framework; and
 - c.* the pro forma financial information be appropriately presented and include disclosures that enable intended users to understand the information conveyed.

Understanding the Entity's Accounting and Financial Reporting Policies

.12 The practitioner who is reporting on the pro forma financial information should have or obtain an appropriate level of knowledge of the accounting and financial reporting practices of the entity (or, in the case of a business combination, each significant constituent part of the combined entity). (Ref: par. .A12)

Examination and Review Procedures

.13 The procedures the practitioner should apply to the assumptions and pro forma adjustments for either an examination or a review engagement are as follows:

- a.* Obtain an understanding of the underlying transaction (or event). (Ref: par. .A13)
- b.* Obtain an understanding of the accounting and financial reporting practices of each significant constituent part of the combined entity in a business combination that will enable the practitioner to perform the required procedures. If another practitioner has performed an audit or a review of the most recent annual or interim period for which the pro forma financial information is presented (or the most recent annual or interim period of a significant constituent part of the combined entity), the need, by a practitioner reporting on the pro forma financial information, for an understanding of such entity's accounting and financial reporting practices is not diminished. In such circumstances, the practitioner should consider whether the practitioner can acquire sufficient knowledge of these matters to perform the procedures necessary to report on the pro forma financial information.
- c.* Discuss with management their assumptions regarding the effects of the transaction (or event).
- d.* Evaluate whether pro forma adjustments are included for all significant effects directly attributable to the transaction (or event).
- e.* Obtain sufficient evidence in support of such adjustments. (Ref: par. .A14)

- f. Evaluate whether management's assumptions that underlie the pro forma adjustments are presented in a sufficiently clear and comprehensive manner.
- g. Evaluate whether the pro forma adjustments are consistent with each other and with the data used to develop them.
- h. Evaluate whether computations of pro forma adjustments are mathematically correct and whether the pro forma column reflects the proper application of those adjustments to the historical financial statements.
- i. Read the pro forma financial information and evaluate whether
 - i. the underlying transaction (or event), the pro forma adjustments, the significant assumptions, and the significant uncertainties, if any, about those assumptions have been appropriately described.
 - ii. the source of the historical financial information on which the pro forma financial information is based has been appropriately identified.

Written Representations in an Examination and Review Engagement

.14 In addition to the written representations from management required by section 205 for an examination engagement or by section 210 for a review engagement, the practitioner should request written representations from management that³

- a. it is responsible for the assumptions used in determining the pro forma adjustments;
- b. the assumptions are factually supportable;
- c. the assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts;
- d. the pro forma adjustments are consistent with the entity's applicable financial reporting framework and its accounting policies under that framework; and
- e. the pro forma financial information is appropriately presented and discloses the significant effects directly attributable to the transaction (or event). (See paragraph .11c.)

.15 In an examination or a review engagement, the practitioner should request from management the written representations required by section 205 or section 210, as applicable, and paragraph .14 of this section, even if the engaging party is not management. The alternative to obtaining the required written representations provided for in sections 205 and

³ Paragraph .50 of section 205 and paragraph .33 of section 210, *Review Engagements*.

210 is not permitted in an engagement to examine or review pro forma financial information.⁴ Management's refusal to furnish the written representations required by section 205 and paragraph .14 of this section constitutes a limitation on the scope of the examination engagement sufficient to preclude an unmodified opinion and may be sufficient to cause the practitioner to withdraw from the examination engagement, when withdrawal is possible under applicable laws and regulations.⁵ Management's refusal to furnish the written representations required by section 210 and paragraph .14 of this section constitutes a limitation on the scope of the review engagement sufficient to cause the practitioner to withdraw from the review engagement.⁶

Reporting

.16 The practitioner's report on pro forma financial information may be added to the practitioner's report on historical financial information, or it may appear separately. If the reports are combined and the date of completion of the procedures for the examination or review of the pro forma financial information is after the date the practitioner obtained the evidence necessary to issue a report on the audit or review of the historical financial information, the combined report should be dual-dated. (Ref: par. .A15)

Content of the Practitioner's Examination Report

.17 The practitioner's examination report on pro forma financial information should include the following, unless the practitioner is disclaiming an opinion, in which case, items .17j and .17k should be omitted: (Ref: par. .A16)

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. A reference to the pro forma adjustments included in the pro forma financial information.
- d. A reference to management's description of the transaction (or event) to which the pro forma adjustments give effect. (The description is included in the pro forma financial information.)
- e. An identification or description of the pro forma financial information being reported on, including the point in time or period of time to which the measurement or evaluation of the pro forma financial information relates.
- f. An identification of the criteria against which the pro forma financial information was measured or evaluated.

⁴ Paragraph .51 of section 205 and paragraph .34 of section 210.

⁵ Paragraphs .50, .55, and .A64 of section 205.

⁶ Paragraphs .33–.38c of section 210.

- g.* A reference to the financial statements from which the historical financial information is derived, a statement that such financial statements were audited, and, if applicable, whether the financial statements were audited by another auditor. (The report on pro forma financial information should refer to any modification in the auditor's report on the historical financial statements. In the case of a business combination, this paragraph applies to each significant constituent part of the combined entity.) (Ref: par. .A17)
- h* A statement that the pro forma adjustments are based on management's assumptions.
- i.* A statement that identifies

 - i.* management and its responsibility for the pro forma financial information.
 - ii.* the practitioner's responsibility to express an opinion on the pro forma financial information based on the practitioner's examination.
- j.* A statement that

 - i.* the practitioner's examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii.* those standards require that the practitioner plan and perform the examination to obtain reasonable assurance about whether, in accordance with (or based on) the criteria

 - (1) management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event),
 - (2) and, in all material respects,

 - (a) the related pro forma adjustments give appropriate effect to those assumptions, and
 - (b) the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts.
 - iii.* an examination involves performing procedures to obtain evidence about

 - (1) management's assumptions, (Ref: par. .A18)
 - (2) the related pro forma adjustments, and
 - (3) the pro forma amounts.
 - iv.* the practitioner believes that the evidence the practitioner obtained is sufficient and appropriate to provide a reasonable basis for the practitioner's opinion.

- k. A description of the objectives and limitations of pro forma financial information
- l. The practitioner's opinion about whether, in accordance with (or based on) the criteria
 - i. management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the transaction (or event), (Ref: par. .A19)
 - ii. and, in all material respects
 - (1) the related pro forma adjustments give appropriate effect to those assumptions, and
 - (2) the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts.
- m. When the circumstances identified in section 205 are applicable, an alert, in a separate paragraph, that restricts the use of the report or describes the purpose of the report, as applicable.⁷
- n. The manual or printed signature of the practitioner's firm.
- o. The city and state where the practitioner practices.
- p. 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
 - i. the attestation documentation has been reviewed,
 - ii. the pro forma financial information has been prepared, and
 - iii. management has provided a written assertion.)

Content of the Practitioner's Review Report

.18 The practitioner's review report on pro forma financial information should include the following: (Ref: par. .A20)

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.

⁷ Paragraph .64 of section 205.

- c.* A reference to the pro forma adjustments included in the pro forma financial information.
- d.* A reference to management's description of the transaction (or event) to which the pro forma adjustments give effect. (The description is included in the pro forma financial information.)
- e.* An identification or description of the pro forma financial information being reported on, including the point in time or period of time to which the measurement or evaluation of the pro forma financial information relates.
- f.* An identification of the criteria against which the pro forma financial information was measured or evaluated.
- g.* A reference to the financial statements from which the historical financial information is derived and (Ref: par. .A21)
 - i.* a statement that such financial statements were audited or reviewed, as applicable.
 - ii.* if the practitioner issued a review report on the historical financial statements, a statement that a review report was issued, and, if applicable, whether the financial statements were reviewed by another accountant. (The report on pro forma financial information should refer to any modification in the accountant's report on the historical financial information. In the case of a business combination, this paragraph applies to each significant constituent part of the combined entity.)
- h.* A statement that the pro forma adjustments are based on management's assumptions.
- i.* A statement that identifies
 - i.* management and its responsibility for the pro forma financial information.
 - ii.* the practitioner's responsibility to express a conclusion on the pro forma financial information based on the practitioner's review.
- j.* A statement that
 - i.* the practitioner's review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii.* those standards require that the practitioner plan and perform the review to obtain limited assurance about whether, in accordance with (or based on) the criteria, any material modifications should be made to
 - (1) management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), (Ref: par. .A22)

- (2) the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or
 - (3) the pro forma amounts in order for them to reflect the proper application of those adjustments to the historical financial statement amounts.
- iii. a review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether, in accordance with (or based on) the criteria, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in order to express an opinion. Accordingly, the practitioner does not express such an opinion.
 - iv. the practitioner believes that the practitioner's review provides a reasonable basis for the practitioner's conclusion.
- k. a description of the objectives and limitations of pro forma financial information.
 - l. the practitioner's conclusion about whether, in accordance with (or based on) the review and based on the criteria, the practitioner is aware of any material modifications that should be made to
 - i. management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), (Ref: par. .A23)
 - ii. the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or
 - iii. the pro forma amounts in order for them to reflect the proper application of those adjustments to the historical financial statement amounts.
 - m. When the circumstances identified in section 210 are applicable, an alert, in a separate paragraph, that restricts the use of the report or describes the purpose of the report, as applicable.⁸
 - n. The manual or printed signature of the practitioner's firm.
 - o. The city and state where the practitioner practices.
 - p. The date of the report. (The report should be dated no earlier than the date on which

⁸ Paragraph .47c of section 210.

the practitioner has obtained sufficient appropriate review evidence on which to base the practitioner's conclusion, including evidence that

- i. the attestation documentation has been reviewed,
- ii. the pro forma financial information has been prepared, and
- iii. management has provided a written assertion.)

Application and Other Explanatory Material

Objectives of an Examination Engagement (Ref: par. .05a[i])

.A1 For the purposes of this section, the responsible party is management of the entity for which the practitioner is reporting on pro forma financial information.

Definitions (Ref: par. .07)

Pro Forma Financial Information

.A2 Pro forma financial information is developed by applying pro forma adjustments to historical financial information. Appropriate pro forma adjustments are based on management's assumptions, give effect to all significant effects directly attributable to the transaction (or event), and are stated on a basis consistent with the financial reporting framework of the reporting entity and its accounting policies under that framework.

.A3 Pro forma financial information is commonly used to show the effects of transactions such as the following:

- Business combination
- Change in capitalization
- Disposition of a significant portion of the business
- Change in the form of business organization or status as an autonomous entity
- Proposed sale of securities and the application of the proceeds

.A4 Adequately disclosed pro forma financial information

- is labeled as such to distinguish it from historical financial information.
- describes the transaction (or event) that is reflected in the pro forma financial information, the date on which the transaction (or event) is assumed to occur, the financial reporting framework of the historical financial statements, the source of the historical financial information on which it is based, the significant assumptions used

to develop the pro forma adjustments, and any significant uncertainties about those assumptions.

- indicates that the pro forma financial information should be read in conjunction with related historical financial information and that the pro forma financial information is not necessarily indicative of the results (such as financial position and results of operations, as applicable) that would have been attained had the transaction (or event) actually taken place earlier.

.A5 Article 11 of Regulation S-X provides further guidance on the presentation of pro forma financial information included in filings with the SEC.

Preconditions for an Examination or Review Engagement (Ref: par. .08–.09)

.A6 For pro forma financial information included in an SEC Form 8-K, historical financial information previously included in an SEC filing would meet this requirement. Interim historical financial information may be presented as a column in the pro forma financial information.

.A7 Historical financial statements, historical interim financial information, and audit reports are deemed to be *readily available* if they are obtainable by a third-party user without any further action by the entity. (For example, historical interim financial information on an entity’s website may be considered readily available, but being available upon request is not considered readily available.)

.A8 For issuers, the review may be as defined in AU section 722, *Interim Financial Information* (AICPA, *PCAOB Standards and Related Rules*), of the PCAOB’s interim auditing standards. For nonissuers, the review may be an interim or annual review as described in AR-C section 90, *Review of Financial Statements* (AICPA, *Professional Standards*) or an interim review as discussed in AU-C section 930, *Interim Financial Information* (AICPA, *Professional Standards*), when the review of interim financial information meets the provisions of that section.⁹ Although AU section 722 does not require an accountant to issue a written report on a review of interim financial information, the SEC requires the report to be filed if, in any filing, the entity states that the interim financial information has been reviewed by an independent public accountant.¹⁰

.A9 If the underlying historical financial statements of the entity (or, in the case of a business combination, of each significant constituent part of the combined entity) have been audited at year-end and reviewed at an interim date, the practitioner may perform an examination or a review of the pro forma financial information at year-end, but is limited to performing a review of the pro forma financial information at the interim date.

⁹ Paragraph .04 of AR-C section 90, *Review of Financial Statements* (AICPA, *Professional Standards*).

¹⁰ Paragraph .03 of AU section 722, *Interim Financial Information* (AICPA, *PCAOB Standards and Related Rules*).

Requesting a Written Assertion (Ref: par. .10)

.A10 Paragraph .10 applies regardless of whether the responsible party is the engaging party.

Assessing the Suitability of the Criteria (Ref: par. .11b(ii))

.A11 Management is responsible for having factually supportable pro forma adjustments. The pro forma adjustments are factually supportable if the preponderance of the information supports each significant assumption underlying the adjustments.

Understanding the Entity's Accounting and Financial Reporting Policies (Ref: par. .12)

.A12 Procedures to obtain knowledge of each significant constituent part of the combined entity in a business combination may include communicating with other practitioners who have audited or reviewed the historical financial information on which the pro forma financial information is based. Matters that may be considered include

- accounting principles and financial reporting practices followed;
- transactions between the entities;
- material contingencies; and
- relevant industry, legal and regulatory, and other external factors pertaining to the entity and any acquiree or divestee.

Examination and Review Procedures (Ref: par. .13a and e)

.A13 An understanding of the underlying transaction (or event) may be obtained, for example, by reading relevant contracts and minutes of meetings of the board of directors and by making inquiries of appropriate officials of the entity, and, if considered necessary in the circumstances, of the entity acquired or to be acquired.

.A14 The evidence required to support the level of assurance obtained is a matter of professional judgment. Sections 205 and 210 provide guidance about the evidence to be obtained in examination and review engagements, respectively. Examples of evidence that the practitioner might consider obtaining are purchase, merger or exchange agreements, appraisal reports, debt agreements, employment agreements, actions of the board of directors, and existing or proposed legislation or regulatory actions.

Reporting (Ref: par. .16)

.A15 The following is an example of how the report would be dual dated:

February 15, 20X2, except for the paragraphs regarding pro forma financial information for which the date is March 20, 20X2.

Content of the Practitioner’s Examination Report (Ref: par. .17)

.A16 The list of elements in paragraph .17 constitutes all the required elements for a practitioner’s examination report on pro forma financial information, including the elements required by section 205.¹¹ Application guidance regarding the elements of an examination report is included in section 205.¹²

Reference to Financial Statements From Which Historical Financial Information is Derived (Ref: par. .17g)

.A17 If the historical financial information was previously included in an SEC filing, the practitioner’s report would be modified to indicate that the historical financial statements are “incorporated by reference.”

Statement That Examination Involves Performing Procedures to Obtain Evidence About Management’s Assumptions (Ref: par. .17j[iii][1])

.A18 Because a business combination accounted for in a manner similar to a pooling-of-interests combines the historical amounts of the combined entities retroactively, pro forma adjustments for a transaction that is not yet reflected in the historical financial statements or a proposed transaction generally affect only the equity section of the pro forma condensed balance sheet. Such business combinations would not ordinarily involve a choice of assumptions by management. Accordingly, a practitioner’s report on a business combination that will be accounted for in a manner similar to a pooling-of-interests need not address management’s assumptions unless the pro forma financial information includes adjustments to conform the accounting principles of the combining entities or gives effect to other transactions (for example, a new contractual arrangement or reduction in interest expense attributable to repayment of debt).

Opinion About Management’s Assumptions (Ref: par. .17l[i])

.A19 Uncertainty about whether the transaction (or event) will be consummated would not ordinarily require a modification of the practitioner’s report.

Content of the Practitioner’s Review Report (Ref: par. .18)

¹¹ Paragraphs .63–.66 of section 205.

¹² Paragraphs .A78–.A101 of section 205.

.A20 The list of elements in paragraph .18 constitutes all the required elements for a practitioner’s report on a review of pro forma financial information, including the elements required by section 210.¹³ Application guidance regarding the elements of a review report is included in section 210.¹⁴

Reference to Financial Statements From Which Historical Financial Information is Derived (Ref: par. .18g)

.A21 If the historical financial information was previously included in an SEC filing, the practitioner’s report would be modified to indicate that the historical financial statements are “incorporated by reference.”

Statement That the Practitioner Plans and Performs Review to Obtain Limited Assurance About Management’s Assumptions (Ref: par. .18j[i][1])

.A22 Because a business combination accounted for in a manner similar to a pooling-of-interests combines the historical amounts of the combined entities retroactively, pro forma adjustments for a transaction that is not yet reflected in the historical financial statements or a proposed transaction generally affect only the equity section of the pro forma condensed balance sheet. Such business combinations would not ordinarily involve a choice of assumptions by management. Accordingly, a practitioner’s report on a business combination that will be accounted for in a manner similar to a pooling-of-interests need not address management’s assumptions unless the pro forma financial information includes adjustments to conform the accounting principles of the combining entities or gives effect to other transactions (for example, a new contractual arrangement or reduction in interest expense attributable to a repayment of debt).

Conclusion About Management’s Assumptions (Ref: par. .18l[i])

.A23 Uncertainty about whether the transaction (or event) will be consummated would not ordinarily require a modification of the practitioner’s report.

¹³ Paragraphs .46–.49 of section 210.

¹⁴ Paragraphs .A61–.A80 of section 210.

Exhibit—Illustrative Practitioner’s Reports for Examinations and Reviews of Pro Forma Financial Information

The illustrative practitioner’s examination reports in this exhibit (examples 1, 3, 4, 5, and 6) meet the reporting requirements of section 205, *Examination Engagements*, and of paragraph .17 of this section.¹ A practitioner may use alternative language in drafting an examination report, provided that the language meets the applicable requirements of section 205 and paragraph .17 of this section.²

The illustrative practitioner’s review reports in this exhibit (examples 2 and 3) meet the applicable reporting requirements of section 210, *Review Engagements*, and of paragraph .18 of this section.³ A practitioner may use alternative language in drafting a review report, provided that the language meets the applicable requirements of section 210 and paragraph .18 of this section.⁴

The language in these illustrative examination and review reports assume that one column of pro forma financial information is presented without presenting separate columns of historical financial information and pro forma adjustments.

Example 1: Practitioner’s Examination Report on Pro Forma Financial Information: Unmodified Opinion

Independent Accountant’s Report

[Appropriate Addressee]

We have examined the pro forma adjustments giving effect to the underlying transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein [*or “and are readily available”*]. The pro forma adjustments are based on management’s assumptions described in Note 1. X Company’s management is

¹ Paragraphs .61–.84 of section 205, *Examination Engagements*.

² Paragraphs .61–.84 of section 205.

³ Paragraphs .44–.60 of section 210, *Review Engagements*.

⁴ See footnote 3.

responsible for the pro forma financial information. Our responsibility is to express an opinion on the pro forma financial information based on our examination.

Our 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, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts. An examination involves performing procedures to obtain evidence about management's assumptions, the related pro forma adjustments, and the pro forma amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the pro forma financial information, 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.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transaction (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction (or event) actually occurred at such earlier date.

In our opinion, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

[Practitioner's signature]
[Practitioner's city and state]
[Date of practitioner's report]

**Example 2: Practitioner's Review Report on Pro Forma Financial Information:
Unmodified Conclusion**

Independent Accountant's Report

[Appropriate Addressee]

We have reviewed the pro forma adjustments giving effect to the transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet of X Company as of March 31, 20X2, and the related pro forma condensed statement of income for the three months then ended (pro forma financial information), based on the criteria in Note 1. These historical condensed financial statements are derived from the historical unaudited financial statements of X Company, which were reviewed by us, and of Y Company, which were reviewed by other accountants,¹ appearing elsewhere herein [*or “and are readily available”*]. The pro forma adjustments are based on management’s assumptions as described in Note 1. X Company’s management is responsible for the pro forma financial information. Our responsibility is to express a conclusion based on our review.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our review to obtain limited assurance about whether, based on the criteria in Note 1, any material modifications should be made to management’s assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event); the related pro forma adjustments, in order for them to give appropriate effect to those assumptions; or the pro forma amounts, in order for them to reflect the proper application of those adjustments to the historical financial statement amounts. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether, based on the criteria, management’s assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transaction (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction (or event) actually occurred at such earlier date.

Based on our review, we are not aware of any material modifications that should be made to management’s assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event)

¹ When one set of historical financial statements is audited and the other set is reviewed, wording similar to the following would be appropriate:

The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were reviewed by other accountants, appearing elsewhere herein [*or “and are readily available”*].

described in Note 1, the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or the pro forma amounts, in order for them to reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of March 31, 20X2, and the related pro forma condensed statement of income for the three months then ended, based on the criteria in Note 1.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 3: Practitioner's Examination Report on Pro Forma Financial Information at Year-End With a Review of Pro Forma Financial Information for a Subsequent Interim Date: Unmodified Opinion and Unmodified Conclusion

Independent Accountant's Report

[Appropriate Addressee]

We have examined the pro forma adjustments giving effect to the transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended (pro forma financial information) based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein *[or "and are readily available"]*. The pro forma adjustments are based on management's assumptions described in Note 1. X Company's management is responsible for the pro forma financial information. Our responsibility is to express an opinion on the pro forma financial information based on our examination.

Our 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, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts. An examination involves performing procedures to obtain evidence about management's assumptions, the related pro forma adjustments, and the pro forma amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the pro forma

financial information, whether due to fraud or error. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In addition, we have reviewed the pro forma adjustments and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet of X Company as of March 31, 20X2, and the related pro forma condensed statement of income for the three months then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were reviewed by us, and of Y Company, which were reviewed by other accountants,¹ appearing elsewhere herein [*or “and are readily available”*]. The pro forma adjustments are based on management’s assumptions as described in Note 1. X Company’s management is responsible for the pro forma financial information. Our responsibility is to express a conclusion based on our review.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our review to obtain limited assurance about whether, based on the criteria in Note 1, any material modifications should be made to management’s assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event); the related pro forma adjustments, in order for them to give appropriate effect to those assumptions; or the pro forma amounts, in order for them to reflect the proper application of those adjustments to the historical financial statement amounts. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether, based on the criteria, management’s assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts, in order to express an opinion. Accordingly, we do not express such an opinion on the pro forma adjustments or on the application of such adjustments to the pro forma condensed balance sheet as of March 31, 20X2, and the pro forma condensed statement of income for the three months then ended. We believe that our review provides a reasonable basis for our conclusion.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transactions (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position

¹ When one set of historical financial statements is audited and the other set is reviewed, wording similar to the following would be appropriate:

The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were reviewed by other accountants, appearing elsewhere herein [*or “and are readily available”*].

that would have been attained had the above-mentioned transaction (or event) actually occurred at such earlier date.

In our opinion, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

Based on our review, we are not aware of any material modifications that should be made to management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or the pro forma amounts in order for them to reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of March 31, 20X2, and the related pro forma condensed statement of income for the three months then ended based on the criteria in Note 1.

[Practitioner's signature]
[Practitioner's city and state]
[Date of practitioner's report]

Example 4: Practitioner's Examination Report: Qualified Opinion Because of a Scope Limitation

Independent Accountant's Report

[Appropriate Addressee]

We have examined the pro forma adjustments giving effect to the transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein *[or "and are readily available"]*. The pro forma adjustments are based upon management's assumptions described in Note 1. X Company's management is responsible for the pro forma financial information. Our responsibility is to express an opinion on the pro forma financial information based on our examination.

Except as discussed below, our 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, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts. An examination involves performing procedures to obtain evidence about management's assumptions, the related pro forma adjustments, and the pro forma amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the pro forma financial information, 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.

We were unable to perform the examination procedures we considered necessary with respect to the assumptions relating to the proposed loan described in Adjustment E in Note 1.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transaction (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction (or event) actually occurred at such earlier date.

In our opinion, based on the criteria in Note 1, except for the effects of such changes, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the assumptions relating to the proposed loan, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 5: Practitioner’s Examination Report: Qualified Opinion Because of Reservations About the Propriety of the Assumptions

Independent Accountant’s Report

[Appropriate Addressee]

[Same first three paragraphs as examination report in example 1.]

As discussed in Note 1 to the pro forma financial statements, the pro forma adjustments reflect management’s assumption that X Division of the acquired company will be sold. The net assets of this division are reflected at their historical carrying amount; generally accepted accounting principles require these net assets to be recorded at fair value less cost to sell.

In our opinion, based on the criteria in Note 1, except for inappropriate valuation of the net assets of X Division, management’s assumptions described in Note 1 provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

[Practitioner’s signature]

[Practitioner’s city and state]

[Date of the practitioner’s report]

Example 6: Practitioner’s Examination Report: Disclaimer of Opinion Because of a Scope Limitation

Independent Accountant’s Report

[Appropriate Addressee]

We were engaged to examine the pro forma adjustments giving effect to the transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma financial condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein [*or “and are readily available”*]. The pro forma adjustments are based on management’s assumptions described in Note 1. X Company’s management is responsible for the pro forma financial information.

As discussed in Note 1 to the pro forma financial statements, the pro forma adjustments reflect management's assumptions that the elimination of duplicate facilities would have resulted in a 30 percent reduction in operating costs. Management could not supply us with sufficient evidence to support this assertion.

[The third paragraph in the practitioner's examination report in example 1 is intentionally omitted from the report with a disclaimer of opinion.]

Because we were unable to evaluate management's assumptions regarding the reduction in operating costs and other assumptions related thereto, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, or on whether, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

AT-C Section 315*

Compliance Attestation

Introduction

.01 This section contains performance and reporting requirements and application guidance for a practitioner (Ref: par. .A1–.A3)

- a. examining an entity’s compliance with requirements of specified laws, regulations, rules, contracts, or grants (specified requirements) or an assertion about compliance with specified requirements.
- b. performing agreed-upon procedures related to an entity’s compliance with specified requirements.
- c. performing agreed-upon procedures related to an entity’s internal control over compliance with specified requirements.

.02 This section does not apply to

- a. reviews of compliance with specified requirements or an entity’s internal control over compliance or an assertion thereon because section 210, *Review Engagements*, specifically prohibits such engagements.¹
- b. examination engagements in which a practitioner is reporting on an entity’s internal control over compliance with specified requirements. (Ref: par. .A4)
- c. situations in which an auditor reports on specified requirements based solely on an audit of financial statements, as addressed in AU-C section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements* (AICPA, *Professional Standards*).
- d. engagements in which a governmental audit requirement requires an auditor to express an opinion on compliance in accordance with AU-C section 935, *Compliance Audits* (AICPA, *Professional Standards*).

.03 A practitioner’s report issued in accordance with the provisions of this section does not provide a legal determination of an entity’s compliance with specified requirements. However, such a report may be useful to legal counsel or others in making such determinations.

* This section contains an “AT-C” identifier, instead of an “AT” identifier, to avoid confusion with references to existing “AT” sections, which remain effective through April 2017, in AICPA *Professional Standards*.

¹ Paragraph .07 of section 210, *Review Engagements*.

.04 In addition to complying with this section, a practitioner is required to comply with section 105, *Concepts Common to All Attestation Engagements*, and either section 205, *Examination Engagements*, for examinations of compliance, or section 215, *Agreed-Upon Procedures Engagements*, for agreed-upon procedures engagements that address compliance. In some cases, this section repeats or refers to requirements found in sections 105, 205, and 215 when describing those requirements in the context of engagements that address compliance. Although not all the requirements in sections 105, 205, and 215 are repeated or referred to in this section, the practitioner is responsible for complying with all the requirements in sections 105 and 205 or 105 and 215, as applicable.

Effective Date

.05 This section is effective for practitioners' examination reports on compliance with specified requirements and for practitioners' agreed-upon procedures reports related to compliance or internal control over compliance with specified requirements dated on or after May 1, 2017.

Objectives of an Examination Engagement

.06 In conducting an examination of an entity's compliance with specified requirements, the objectives of the practitioner are to (Ref: par. .A5)

- a. obtain reasonable assurance about whether the entity complied with the specified requirements, in all material respects,
- b. express an opinion in a written report about whether
 - i. the entity complied with the specified requirements, in all material respects, or
 - ii. management's assertion about its compliance with the specified requirements is fairly stated, in all material respects.

Objectives of an Agreed-Upon Procedures Engagement

.07 In conducting an agreed-upon procedures engagement for which the subject matter is compliance or internal control over compliance with specified requirements, the objectives of the practitioner are to

- a. apply to an entity's compliance with specified requirements or an entity's internal control over compliance with specified requirements procedures that are established by specified parties who are responsible for the sufficiency of the procedures for their purposes and
- b. issue a written report that describes the procedures applied and the practitioner's findings.

Definitions

.08 For the purposes of this section, the following terms have the meanings attributed as follows:

Compliance with specified requirements. An entity's compliance with specified laws, regulations, rules, contracts, or grants.

Internal control over compliance. An entity's internal control over compliance with specified requirements. The internal control addressed in this section may include part of, but is not the same as, internal control over financial reporting. (Ref: par. .A6)

Material noncompliance. A failure to follow compliance requirements or a violation of prohibitions included in the specified requirements that results in noncompliance that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance. (Ref: par. .A7)

Requirements

Preconditions for Examination Engagements

.09 In order to accept an attestation engagement to examine compliance with specified requirements, in addition to the preconditions for an examination engagement in sections 105 and 205, the practitioner should determine that² (Ref: par. .A8–.A9)

- a. management accepts responsibility for the entity's compliance with specified requirements and the entity's internal control over compliance.
- b. management evaluates the entity's compliance with specified requirements. (Ref: par. .A9)

.10 In performing an examination under this section, the practitioner should request from management a written assertion. If management refuses to provide a written assertion, the practitioner should withdraw from the engagement when withdrawal is possible under applicable law or regulation. (Ref: par. .A10–.A11)

Reasonable Assurance

.11 In an engagement to examine compliance with specified requirements, the practitioner should seek to obtain reasonable assurance that the entity complied with the specified requirements, in all material respects, including designing the examination to detect both intentional and unintentional material noncompliance.

Materiality

.12 As required by section 205, the practitioner should consider materiality when establishing the

² Paragraphs .24–.28 of section 105, *Concepts Common to All Attestation Engagements*, and paragraph .06 of section 205, *Examination Engagements*.

overall engagement strategy.³ (Ref: par. .A12–.A13)

Examination Procedures

.13 The practitioner should obtain an understanding of the specified requirements. The practitioner’s procedures to obtain that understanding should include the following: (Ref: par. .A14)

- a.* Consideration of laws, regulations, rules, contracts, and grants that pertain to the specified requirements, including published requirements
- b.* Consideration of knowledge about the specified requirements obtained through prior engagements and regulatory reports
- c.* Discussion with appropriate individuals within the entity (for example, the chief financial officer, internal auditors, legal counsel, compliance officer, or grant or contract administrators)

.14 In an engagement to examine an entity’s compliance with specified requirements when the entity has operations in several components (for example, locations, branches, subsidiaries, or programs), the practitioner should determine the nature, timing, and extent of testing to be performed at individual components. In making such a determination and in selecting the components to be tested, the practitioner should evaluate factors such as the following:

- a.* The degree to which the specified requirements apply at the component level
- b.* Judgments about materiality
- c.* The degree of centralization of records
- d.* The effectiveness of the control environment, particularly management’s direct control over the exercise of authority delegated to others and its ability to supervise activities at various locations effectively
- e.* The nature and extent of operations conducted at the various components
- f.* The similarity of operations over compliance for different components

.15 The practitioner should obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements. In planning the examination, such knowledge should be used to identify types of potential noncompliance, to consider factors that affect the risk of material noncompliance, and to design appropriate tests of compliance. (Ref: par. .A15–.A16)

³ Paragraph .16 of section 205.

.16 For engagements involving compliance with regulatory requirements, the practitioner's procedures should include reviewing reports of relevant examinations and related communications between regulatory agencies and the entity and, when appropriate, making inquiries of the regulatory agencies, including inquiries about examinations in progress.

Written Representations in an Examination Engagement

.17 In an examination engagement, in addition to the written representations from management required by section 205, the practitioner should request written representations from management that⁴ (Ref: par. .A17)

- a. acknowledge management's responsibility for establishing and maintaining effective internal control over compliance.
- b. state that management has performed an evaluation of the entity's compliance with specified requirements.
- c. state management's interpretation of any compliance requirements that have varying interpretations.

.18 In an examination of compliance, the practitioner should request from management the written representations required by section 205 and paragraph .17 of this section, even if the engaging party is not management.⁵ The alternative to obtaining the required written representations provided for in section 205 is not permitted in an engagement to examine compliance.⁶ Management's refusal to furnish the written representations required by section 205 and paragraph .17 of this section constitutes a limitation on the scope of the engagement sufficient to preclude an unmodified opinion and may be sufficient to cause the practitioner to withdraw from the examination engagement, when withdrawal is possible under applicable laws and regulations.⁷

Forming the Opinion

.19 In evaluating whether the entity has complied with the specified requirements, in all material respects, (or whether management's assertion about its compliance with the specified requirements is fairly stated, in all material respects), the practitioner should evaluate (a) the nature and frequency of the noncompliance identified and (b) whether such noncompliance is material relative to the nature of the compliance requirements.

Content of the Practitioner's Examination Report

⁴ Paragraph .50 of section 205.

⁵ See footnote 4.

⁶ Paragraph .51 of section 205.

⁷ Paragraphs .50, .55, and .A64 of section 205.

.20 The practitioner's examination report on compliance should include the following, unless the practitioner is disclaiming an opinion, in which case, items .20g and .20h should be omitted. (Ref: par. .A18–.A20)

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. An identification of the compliance matters that are being reported on or the assertion about such matters, including the point in time or period of time to which the measurement or evaluation of compliance relates.
- d. An identification of the specified requirements against which compliance was measured or evaluated. (Ref: par. .A21)
- e. A statement that identifies
 - i. management and its responsibility for compliance with the specified requirements (when reporting on the subject matter) or for its assertion (when reporting on the assertion).
 - ii. the practitioner's responsibility to express an opinion on the entity's compliance with the specified requirements or on management's assertion about the entity's compliance with the specified requirements, based on the practitioner's examination.
- f. A statement that
 - i. the examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii. those standards require that the practitioner plan and perform the examination to obtain reasonable assurance about whether
 - (1) the entity complied with the specified requirements, in all material respects, or
 - (2) management's assertion about compliance with the specified requirements is fairly stated, in all material respects.
 - iii. the practitioner believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the practitioner's opinion.
- g. A description of the nature of an examination engagement.
- h. A statement that describes significant inherent limitations, if any, associated with the measurement or evaluation of the entity's compliance with specified requirements or its assertion thereon.

- i.* A statement that the examination does not provide a legal determination on the entity's compliance with specified requirements.
- j.* The practitioner's opinion about whether, in all material respects
 - (1) the entity complied with the specified requirements or
 - (2) management's assertion about the entity's compliance with specified requirements is fairly stated.
- k.* When the circumstances identified in section 205 are applicable, an alert in a separate paragraph that restricts the use of the report or describes the purpose of the report, as applicable.⁸
- l.* The manual or printed signature of the practitioner's firm.
- m.* The city and state where the practitioner practices.
- n.* 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
 - i.* the attestation documentation has been reviewed, and
 - ii.* management has provided a written assertion.)

.21 Frequently, criteria will be contained in the compliance requirements, in which case, it is not necessary to repeat the criteria in the practitioner's report; however, if the criteria are not included in the compliance requirement, the report should identify the criteria. (Ref: par. .A21–.A23)

Modified Opinions

.22 If the practitioner determines that there is material noncompliance, the practitioner's report should describe the material noncompliance, and the opinion should be modified in accordance with section 205.⁹ (Ref: par. .A24–.A28)

Preconditions for an Agreed-Upon Procedures Engagement

.23 In order to accept an attestation engagement to apply agreed-upon procedures related to compliance with specified requirements or internal control over compliance with specified

⁸ Paragraph .64c of section 205.

⁹ Paragraphs .68–.84 of section 205.

requirements, in addition to the preconditions for an agreed-upon procedures engagement in sections 105 and 215, the practitioner should determine that¹⁰ (Ref: par. .A29–.A30)

- a. management accepts responsibility for the entity’s compliance with specified requirements and the entity’s internal control over compliance.
- b. management evaluates the entity’s compliance with specified requirements or the entity’s internal control over compliance.

.24 The practitioner should obtain an understanding of the specified requirements. The practitioner’s procedures to obtain that understanding should include the following:

- a. Consideration of laws, regulations, rules, contracts, and grants that pertain to the specified requirements, including published requirements
- b. Consideration of knowledge about the specified requirements obtained through prior engagements and regulatory reports
- c. Discussion with appropriate individuals within the entity (for example, the chief financial officer, internal auditors, legal counsel, compliance officer, or grant or contract administrators)

Written Representations in an Agreed-Upon Procedures Engagement

.25 In an agreed-upon procedures engagement, in addition to the written representations from management required by section 215, the practitioner should request written representations from management that¹¹

- a. acknowledge management’s responsibility for establishing and maintaining effective internal control over compliance.
- b. state that management has performed an evaluation of (i) the entity’s compliance with specified requirements or (ii) the entity’s controls for establishing and maintaining internal control over compliance and detecting noncompliance with requirements, as applicable.
- c. state management’s interpretation of any compliance requirements that have varying interpretations.
- d. state that management has disclosed any known noncompliance occurring subsequent to the period covered by the practitioner’s report.

Content of the Practitioner’s Agreed-Upon Procedures Report

¹⁰ Paragraphs .24–.28 of section 105 and paragraphs .09–.11 of section 215, *Agreed-Upon Procedures Engagements*.

¹¹ Paragraph .28 of section 215.

.26 The practitioner's agreed-upon procedures report on compliance should include the following: (Ref: par. .A31–.A34)

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. An indication that the subject matter of the engagement is the entity's compliance during a period or as of a point in time.
- d. An identification of the specified requirements against which the entity's compliance was measured or evaluated.
- e. An indication that management of the entity is responsible for the entity's compliance with the specified requirements.
- f. An identification of the specified parties.
- g. A statement that
 - i. the sufficiency of the procedures is solely the responsibility of the parties specified in the report.
 - ii. the practitioner makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose.
- h. A list of the procedures performed (or reference thereto) and related findings. (The practitioner should not provide a conclusion.)
- i. When applicable, a description of any agreed-upon materiality limits.
- j. A statement that
 - i. the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii. the practitioner was not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with specified requirements (or internal control over compliance with specified requirements).
 - iii. the practitioner does not express such an opinion or conclusion.

- iv. had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported.
- k. When applicable, a description of the nature of the assistance provided by a practitioner's external specialist.
- l. When applicable, reservations or restrictions concerning procedures or findings.
- m. An alert, in a separate paragraph, that restricts the use of the report. The alert should
 - i. state that the report is intended solely for the information and use of the specified parties,
 - ii. identify the specified parties for whom use is intended, and
 - iii. state that the report is not intended to be, and should not be, used by anyone other than the specified parties.
- n. When the engagement is also performed in accordance with *Government Auditing Standards*, the alert that restricts the use of the report should include the following information, rather than the information required by paragraph .26m:
 - i. A description of the purpose of the report
 - ii. A statement indicating that the report is not suitable for any other purpose
- o. The manual or printed signature of the practitioner's firm.
- p. The city and state where the practitioner practices.
- q. The date of the report. (The report should be dated no earlier than the date on which the practitioner completed the procedures and determined the findings, including that
 - i. the attestation documentation has been reviewed, and
 - ii. management has provided a written assertion, unless management refuses to provide an assertion).

Application and Other Explanatory Material

Introduction (Ref: par. .01 and .02b)

.A1 Compliance requirements may be either financial or nonfinancial in nature.

.A2 The criteria for evaluating or measuring compliance with specified requirements ordinarily are included in the specified requirements but may be otherwise identified.

.A3 A practitioner may be engaged to provide other types of services in connection with an entity's compliance with specified requirements or its internal control over compliance with specified requirements. For example, the practitioner may be engaged to provide recommendations on how to improve the entity's compliance or related internal control. Such an engagement is governed by the guidance in CS section 100, *Consulting Services: Definitions and Standards* (AICPA, *Professional Standards*).

.A4 An engagement to examine internal control over compliance is governed by sections 105 and 205. Additionally, AU-C section 940, *An Audit of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements* (AICPA, *Professional Standards*), may be helpful to a practitioner in such an engagement.

Objectives of an Examination Engagement (Ref: par. .06)

.A5 For the purposes of this section, the responsible party is management of the entity for which the practitioner is reporting on compliance.

Definitions

Internal Control Over Compliance

.A6 An entity's internal control over compliance is the process by which management obtains reasonable assurance of compliance with specified requirements. Although management's internal control may include a wide variety of objectives and related policies and procedures, only some of these may be relevant to an entity's compliance with specified requirements. An entity's internal control over compliance may vary based on the nature of the compliance requirements. For example, internal control over compliance with a capital requirement would generally include accounting procedures, whereas internal control over compliance with a requirement to practice nondiscriminatory hiring may not include accounting procedures.

Material Noncompliance

.A7 Government requirements or other requirements may define material noncompliance for the purpose of the engagement.

Preconditions for Examination Engagements (Ref: par. .09–.10)

.A8 Management is responsible for ensuring that the entity complies with the requirements applicable to its activities. That responsibility encompasses the following:

- a. Identifying the specified requirements
- b. Designing, implementing, and maintaining internal control to provide reasonable assurance that the entity complies with those requirements

- c. Evaluating and monitoring the entity's compliance
- d. Specifying reports that satisfy legal, regulatory, or contractual requirements

.A9 Management's evaluation may include documentation such as accounting or statistical data, entity policy manuals, accounting manuals, narrative memoranda, procedural write-ups, flowcharts, completed questionnaires, or internal auditors' reports. The form and extent of documentation will vary depending on the nature of the compliance requirements and the size and complexity of the entity.

.A10 Management's written assertion about compliance with specified requirements may take many forms. Throughout this section, for example, the phrase "management's assertion that W Company complied with [*specify compliance requirement*] as of [*date*]," illustrates such an assertion. Other phrases may also be used. A statement that is so subjective (for example, *substantially complied*) that people having competence in and using the same or similar criteria would not ordinarily be able to arrive at similar conclusions is not an appropriate written assertion.

.A11 Paragraph .10 applies regardless of whether the responsible party is the engaging party.

Materiality (Ref: par. .12)

.A12 The terms of an engagement may provide for a supplemental practitioner's report of all or certain noncompliance discovered. Such terms would not affect the practitioner's judgments about materiality in establishing the overall engagement strategy or in forming an opinion on an entity's compliance with specified requirements or on management's assertion about such compliance.

.A13 In an examination of an entity's compliance with specified requirements, the practitioner's consideration of materiality is affected by (a) the nature of the compliance requirements, which may or may not be quantifiable in monetary terms, (b) the nature and frequency of noncompliance identified with appropriate consideration of sampling risk, and (c) qualitative considerations, including the needs and expectations of the users of the practitioner's report.

Examination Procedures (Ref: par. .13 and .15)

.A14 In certain circumstances, the practitioner may determine that it is necessary to discuss the specified requirements with appropriate individuals outside the entity (for example, a regulator or specialist).

.A15 A practitioner generally obtains an understanding of the design of specific controls by performing the following:

- a. Inquiries of appropriate management, supervisory, and staff personnel

- b. Inspection of the entity's documents
- c. Observation of the entity's activities and operations

.A16 The nature and extent of procedures a practitioner performs vary from entity to entity and are influenced by factors such as the following:

- The newness and complexity of the specified requirements
- The practitioner's knowledge of internal control over compliance obtained in previous professional engagements
- The nature of the specified requirements
- An understanding of the industry in which the entity operates
- Judgments about materiality

Written Representations in an Examination Engagement (Ref: par. .17)

.A17 At the beginning of the engagement, the practitioner may want to consider discussing with management the need for management to provide the practitioner with a written representation letter at the conclusion of the engagement.

Content of the Practitioner's Examination Report (Ref: par. .20–.21)

.A18 The list of elements in paragraph .20 constitutes all the required elements for a practitioner's report on an examination of compliance with specified requirements, including the elements required by section 205.¹² Application guidance regarding the elements of an examination report is included in section 205.¹³

.A19 Examples 1 and 2 in the exhibit to this section provide illustrations of practitioner's examination reports on compliance.

.A20 Item .20*d* represents the criteria for measuring or evaluating compliance with the specified requirements.

.A21 Ordinarily, the criteria are included in the specified requirements. In that case, the identification may say, "We have examined management of XYZ Company's compliance with [*identify the specified requirements...*]."

.A22 If a compliance requirement is to "maintain \$25,000 in capital," it would not be necessary to identify the \$25,000 in the practitioner's report; however, if the requirement is subjectively

¹² Paragraphs .63–.66 of section 205.

¹³ Paragraphs .A78–.A101 of section 205.

worded, for example, to “maintain adequate capital,” the criteria used to define *adequate* would be included in the report.

.A23 When evaluating compliance with certain requirements requires interpretation of the laws, regulations, rules, contracts, or grants that establish those requirements, the practitioner evaluates whether the criteria are suitable for evaluating compliance. If these interpretations are significant, the practitioner may include a paragraph describing the interpretations and identifying the source of the interpretations made by the entity’s management. The following is an example of such a paragraph:

We have been informed that, under [*name of entity*]’s interpretation of [*identify the compliance requirement*], [*explain the source and nature of the relevant interpretation*].

Modified Opinions (Ref: par. .22)

Qualified Opinion

.A24 The following is an example of

- a. a paragraph that would be added to the practitioner’s report to describe the matter giving rise to the qualified opinion, and
- b. an opinion paragraph of a report containing the qualified opinion:

Our examination disclosed the following material noncompliance with [*type of compliance requirement*] applicable to [*name of entity*] during the [*period*] ended [*date*]. [*Describe noncompliance.*]

In our opinion, except for the material noncompliance described in the preceding paragraph, [*name of entity*] complied, in all material respects, with the aforementioned requirements for the [*period*] ended [*date*].

Adverse Opinion

.A25 The following is an example of

- a. a paragraph that would be added to the practitioner’s report to describe the matter(s) giving rise to the adverse opinion, and
- b. an opinion paragraph of a report containing an adverse opinion:

Our examination disclosed the following material noncompliance with [*type of compliance requirement*] applicable to [*name of entity*] during the [*period*] ended [*date*]. [*Describe noncompliance.*]

In our opinion, because of the effect of the noncompliance described in the preceding paragraph, [*name of entity*] has not complied with the aforementioned requirements for the [*period*] ended [*date*].

.A26 If the practitioner's report containing a qualified or adverse opinion on the entity's compliance with specified requirements is included in a document that also includes the practitioner's audit report on the entity's financial statements, the compliance report may indicate that the noncompliance was considered during the audit.

.A27 The following is an example of an additional sentence that may be included in the opinion paragraph of a practitioner's examination report that describes material noncompliance:

We considered the effect of these conditions on our audit of the 20XX financial statements. This report on XYZ Company's compliance with [*identify the specified requirements*] does not affect our audit report dated [*date of report*] on those financial statements.

.A28 The practitioner also may include the preceding sentence when the two practitioner's reports are not included in the same document.

Preconditions for an Agreed-Upon Procedures Engagement (Ref: par. .23)

.A29 Management is responsible for ensuring that the entity complies with the requirements applicable to its activities. That responsibility encompasses the following:

- a. Identifying the specified requirements
- b. Establishing and maintaining internal control to provide reasonable assurance that the entity complies with those requirements
- c. Evaluating and monitoring the entity's compliance
- d. Specifying reports that satisfy legal, regulatory, or contractual requirements

.A30 Management's evaluation may include documentation such as accounting or statistical data, entity policy manuals, accounting manuals, narrative memoranda, procedural write-ups, flowcharts, completed questionnaires, or internal auditors' reports. The form and extent of documentation will vary depending on the nature of the compliance requirements and the size and complexity of the entity.

Content of the Practitioner's Agreed-Upon Procedures Report (Ref: par. .26)

.A31 The list of elements in paragraph .26 of this section constitutes all the required elements for a practitioner's report on the application of agreed-upon procedures related to an entity's

compliance with specified requirements, including the elements required by section 215.¹⁴ Application guidance regarding the elements of an agreed-upon procedures report is included in section 215.¹⁵

.A32 In some agreed-upon procedures engagements, procedures may relate to both compliance with specified requirements and the entity's internal control over compliance. In these engagements, the practitioner may issue one practitioner's report that addresses both. For example, the first sentence of the introductory paragraph may state the following:

We have performed the procedures enumerated below, related to *[name of entity]*'s compliance with *[identify the specified requirements]* during the *[period]* ended *[date]* and *[name of entity]*'s internal control over compliance with the aforementioned compliance requirements as of *[date]*.

.A33 When performing agreed-upon procedures related to an entity's compliance with specified requirements, or an entity's internal control over compliance with certain requirements requires interpretation of the laws, regulations, rules, contracts, or grants that establish those requirements, the practitioner evaluates whether the criteria are suitable for performing such agreed-upon procedures and reporting findings. If these interpretations are significant, the practitioner may include a paragraph describing the interpretations made by management and the source of the interpretations. An example of such a paragraph, which would precede the procedures and findings paragraph(s), follows:

We have been informed that, under *[name of entity]*'s interpretation of *[identify the compliance requirement]*, *[explain the nature and source of the relevant interpretation.]*

.A34 Example 3 in the exhibit to this section provides an illustration of a practitioner's agreed-upon procedures report related to compliance with specified requirements. Example 4 in the exhibit to this section provides an illustration of an agreed-upon procedures report related to internal control over compliance with specified requirements.

¹⁴ Paragraphs .35–.36 of section 215.

¹⁵ Paragraphs .A35–.A43 of section 215.

.A35

Exhibit—Illustrative Practitioner’s Examination and Agreed-Upon Procedures Reports Related to Compliance, and Agreed-Upon Procedures Report Related to Internal Control Over Compliance

The illustrative practitioner’s examination reports in this exhibit (examples 1 and 2) meet the reporting requirements of section 205, *Examination Engagements*, and of paragraphs .20–.22 of this section.¹ A practitioner may use alternative language in drafting an examination report, provided that the language meets the applicable requirements of section 205 and paragraphs .20–.22 of this section.²

The illustrative practitioner’s agreed-upon procedures reports in this exhibit (examples 3 and 4) meet the applicable reporting requirements of section 215, *Agreed-Upon Procedures Engagements*, and paragraph .26 of this section.³ A practitioner may use alternative language in drafting an agreed-upon procedures report, provided that the language meets the applicable requirements of section 215 and paragraph .26 of this section.⁴

Example 1: Practitioner’s Examination Report on Compliance; Unmodified Opinion

The following is an illustrative practitioner’s examination report for an engagement in which the practitioner is reporting on subject matter (an entity’s compliance with specified requirements during a period of time).

Independent Accountant’s Report

[*Appropriate addressee*]

We have examined XYZ Company’s compliance with [*identify the specified requirements, for example, the requirements listed in Attachment I*] during the period January 1, 20X1, to December 31, 20X1. Management of XYZ Company is responsible for XYZ Company’s compliance with the specified requirements. Our responsibility is to express an opinion on XYZ Company’s compliance with the specified requirements based on our examination.

Our 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 XYZ Company complied, in all material respects, with the specified requirements referenced above. An examination

¹ Paragraphs .61–.84 of section 205.

² See footnote 1.

³ Paragraphs .33–.41 of section 215.

⁴ See footnote 3.

involves performing procedures to obtain evidence about whether XYZ Company complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, 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.

Our examination does not provide a legal determination on XYZ Company's compliance with specified requirements.

In our opinion, XYZ Company complied, in all material respects, with [*identify the specified requirements, for example, the requirements listed in Attachment I*] during the period January 1, 20X1 to December 31, 20X1.

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of practitioner's report*]

Example 2: Practitioner's Examination Report on an Assertion About Compliance; Unmodified Opinion

The following is an illustrative practitioner's examination report for an engagement in which the practitioner is reporting on the management's assertion about compliance with specified requirements and management's assertion accompanies the report.

Independent Accountant's Report

[*Appropriate Addressee*]

We have examined management of XYZ Company's assertion that XYZ Company complied with [*identify the specified requirements, for example, the requirements listed in Attachment I*] during the period January 1, 20X1 to December 31, 20X1.¹ XYZ Company's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion about XYZ Company's compliance with the specified requirements based on our examination.

Our 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 management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An

¹ If management's assertion accompanies the practitioner's report, the practitioner would refer to management's assertion by using the same title as management used for its assertion. The report also would use the same description of the specified requirements that management used in its assertion. If management's assertion is stated in the report, rather than accompanying the report, the word *accompanying* would be omitted.

examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, 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.

Our examination does not provide a legal determination on XYZ Company's compliance with the specified requirements.

In our opinion, management's assertion that XYZ Company complied with [*identify the specified requirements, for example, the requirements listed in Attachment I*], is fairly stated, in all material respects.

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of practitioner's report*]

Example 3: Practitioner's Agreed-Upon Procedures Report Related to Compliance

The following is an illustrative practitioner's agreed-upon procedures report related to an entity's compliance with specified requirements in which the procedures and findings are enumerated, rather than referenced.

Independent Accountant's Report on Applying Agreed-Upon Procedures

[*Appropriate Addressee*]

We have performed the procedures enumerated below, which were agreed to by [*identify the specified parties, for example, the management and board of directors of XYZ Company*], related to XYZ Company's compliance with [*identify the specified requirements, for example, the requirements listed in Attachment I*] during the period January 1, 20X1 to December 31, 20X1.¹ XYZ Company's management is responsible for its compliance with those requirements. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

[*Include paragraphs to enumerate procedures and findings.*]

¹ If the agreed-upon procedures have been published by a third-party user (for example, a regulator in regulatory policies or a lender in a debt agreement), this sentence might begin as follows: "We have performed the procedures included in [*title of publication or other document*] and enumerated below..."

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with specified requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of [*identify the specified parties, for example, the management and board of directors of XYZ Company*] and is not intended to be, and should not be, used by anyone other than the specified parties.

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of practitioner's report*]

Example 4: Practitioner's Agreed-Upon Procedures Report Related to Internal Control Over Compliance

The following is an illustrative practitioner's agreed-upon procedures report related to an entity's internal control over compliance in which the procedures and findings are enumerated rather than referenced.

Independent Accountant's Report on Applying Agreed-Upon Procedures

[*Appropriate Addressee*]

We have performed the procedures enumerated below, which were agreed to by [*identify the specified parties, for example, the management and board of directors of XYZ Company*], related to XYZ Company's internal control over compliance with [*identify the specified requirements for example, the requirements listed in Attachment I*], as of December 31, 20X1.¹ XYZ Company's management is responsible for its internal control over compliance with those requirements. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

[*Include paragraphs to enumerate procedures and findings.*]

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not

¹ If the agreed-upon procedures have been published by a third-party user (for example, a regulator in regulatory policies or a lender in a debt agreement), this sentence might begin as follows: "We have performed the procedures included in [*title of publication or other documents*] and enumerated below..."

engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on internal control over compliance with specified requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of [*identify the specified parties, for example, the management and board of directors of XYZ Company*] and is not intended to be, and should not be, used by anyone other than the specified parties.

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of practitioner's report*]

AT-C Section 320*

Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting

Introduction

.01 This section contains performance and reporting requirements and application guidance for a service auditor examining controls at organizations that provide services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting. It complements AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization* (AICPA, *Professional Standards*), in that a service auditor's report prepared in accordance with this section may provide appropriate evidence under AU-C section 402. (Ref: par. .A1)

.02 In addition to complying with this section, a practitioner is required to comply with section 105, *Concepts Common to All Attestation Engagements*, and section 205, *Examination Engagements*. In some cases, this section repeats or refers to requirements in sections 105 and 205 when describing those requirements in the context of examinations that address controls at a service organization likely to be relevant to user entities' internal control over financial reporting. Although not all the requirements in sections 105 and 205 are repeated or referred to in this section, the practitioner is responsible for complying with all the requirements in sections 105 and 205. (Ref: par. .A2)

.03 Section 205 indicates that when performing an attestation engagement, a practitioner should report on a written assertion or should report directly on the subject matter.¹ For engagements conducted under this section, the service auditor reports directly on the subject matter.

.04 The focus of this section is on controls at service organizations likely to be relevant to user entities' internal control over financial reporting. The guidance herein also may be helpful to a practitioner performing an engagement under section 205 to report on controls at a service organization

- a. other than those that are likely to be relevant to user entities' internal control over financial reporting (for example, controls that affect user entities' compliance with specified requirements of laws, regulations, rules, contracts, or grants or controls that affect user entities' production or quality control). Section 315, *Compliance Attestation*, is applicable if a practitioner is performing agreed-upon procedures related to an entity's internal control over compliance with specified requirements. Section 205 is applicable if

* This section contains an "AT-C" identifier, instead of an "AT" identifier, to avoid confusion with references to existing "AT" sections, which remain effective through April 2017, in AICPA *Professional Standards*.

¹ Paragraph .62 of section 205, *Examination Engagements*.

a practitioner is examining an entity's controls over compliance with specified requirements. (Ref: par. .A3–.A4)

- b. when management of the service organization does not provide an assertion about the suitability of the design of controls because it is not responsible for the design of the controls (for example, when the controls have been designed by the user entity or the design is stipulated in a contract between the user entity and the service organization). (Ref: par. .A5)

.05 In addition to performing an examination of a service organization's controls, a service auditor may be engaged to (a) examine and report on a user entity's transactions or balances maintained by a service organization, or (b) perform and report under section 215, *Agreed-Upon Procedures Engagements*, the results of agreed-upon procedures related to the controls of a service organization or to transactions or balances of a user entity maintained by a service organization. However, these engagements are not addressed in this section.

Effective Date

.06 This section is effective for service auditors' reports dated on or after May 1, 2017.

Objectives

.07 The objectives of the service auditor are to

- a. obtain reasonable assurance about whether, in all material respects, based on the criteria
 - i. management's description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period (or in the case of a type 1 report, as of a specified date)
 - ii. the controls related to the control objectives stated in management's description of the service organization's system were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the specified period (or in the case of a type 1 report, as of a specified date).
 - iii. when included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in management's description of the service organization's system were achieved throughout the specified period.
- b. express an opinion in a written report about the matters in paragraph .07a.

Definitions

.08 For the purposes of this section, the following definitions apply:

Carve-out method. Method of addressing the services provided by a subservice organization, whereby management's description of the service organization's system identifies the nature of the services performed by the subservice organization and excludes from the description and from the scope of the service auditor's engagement the subservice organization's relevant control objectives and related controls.

Complementary subservice organization controls. Controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by the subservice organizations and are necessary to achieve the control objectives stated in management's description of the service organization's system.

Complementary user entity controls. Controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities and are necessary to achieve the control objectives stated in management's description of the service organization's system. (Ref: par. .A6)

Control objectives. The aim or purpose of specified controls at the service organization. Control objectives address the risks that controls are intended to mitigate.

Controls at a service organization. The policies and procedures at a service organization likely to be relevant to user entities' internal control over financial reporting. These policies and procedures are designed, implemented, and documented by the service organization to provide reasonable assurance about the achievement of the control objectives relevant to the services covered by the service auditor's report. (Ref: par. .A7)

Inclusive method. Method of addressing the services provided by a subservice organization whereby management's description of the service organization's system includes a description of the nature of the services provided by the subservice organization as well as the subservice organization's relevant control objectives and related controls.

Management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design of controls (referred to in this section as a *type 1 report*). A service auditor's report that comprises the following:

- a. Management's description of the service organization's system
- b. A written assertion by management of the service organization about whether, based on the criteria
 - i. management's description of the service organization's system fairly presents the service organization's system that was designed and implemented as of a specified date
 - ii. the controls related to the control objectives stated in management's

description of the service organization's system were suitably designed to achieve those control objectives as of the specified date

- c. A report that expresses an opinion on the matters in *b(i)–(ii)*

Management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design and operating effectiveness of controls (referred to in this section as a *type 2 report*). A service auditor's report that comprises the following:

- a. Management's description of the service organization's system
- b. A written assertion by management of the service organization about whether, based on the criteria
 - i. management's description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period
 - ii. the controls related to the control objectives stated in management's description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives
 - iii. the controls related to the control objectives stated in management's description of the service organization's system operated effectively throughout the specified period to achieve those control objectives
- c. A report that
 - i. expresses an opinion on the matters in *b(i)–(iii)*
 - ii. includes a description of the tests of controls and the results thereof

Service auditor. A practitioner who reports on controls at a service organization.

Service organization. An organization or segment of an organization that provides services to user entities, which are likely to be relevant to those user entities' internal control over financial reporting.

Service organization's assertion. A written assertion about the matters referred to in part (b) of the definition of **management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design and operating effectiveness of controls**, for a type 2 report, and, for a type 1 report, the matters referred to in part (b) of the definition of **management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design of controls**.

Service organization's system. The policies and procedures designed, implemented, and documented by management of the service organization to provide user entities with the services covered by the service auditor's report. Management's description of the service organization's system identifies the services covered, the period to which the description relates (or in the case of a type 1 report, the date to which the description relates), the control objectives specified by management or an outside party, the party specifying the control objectives (if not specified by management), and the related controls. (Ref: par. .A8)

Subservice organization. A service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to those user entities' internal control over financial reporting. (Ref: par. .A9)

Test of controls. A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in management's description of the service organization's system.

Type 1 report. See **management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design of controls.**

Type 2 report. See **management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design and operating effectiveness of controls.**

User auditor. An auditor who audits and reports on the financial statements of a user entity.

User entity. An entity that uses a service organization for which controls at the service organization are likely to be relevant to that entity's internal control over financial reporting.

Requirements

Management and Those Charged With Governance

.09 When this section requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with management of the service organization, the service auditor should determine the appropriate person(s) within the service organization's management or governance structure with whom to interact. This should include consideration of which person(s) has the appropriate responsibilities for and knowledge of the matters concerned. (Ref: par. .A10–.A11)

Preconditions

.10 A service auditor should accept or continue an engagement to report on controls at a service organization pursuant to this section only if the preconditions for an attestation engagement identified in section 105 and the following conditions are met:² (Ref: par. .A12–.A13)

- a. The service auditor’s preliminary knowledge of the engagement circumstances indicates that the scope of the engagement and management’s description of the service organization’s system will not be so limited that they are unlikely to be useful to user entities and their auditors.
- b. Management acknowledges and accepts its responsibility for the following:
 - i. Preparing its description of the service organization’s system and its assertion, including the completeness, accuracy, and method of presentation of the description and assertion (Ref: par. .A14)
 - ii. Having a reasonable basis for its assertion (Ref: par. .A15)
 - iii. Selecting the criteria to be used and stating them in the assertion
 - iv. Specifying the control objectives, stating them in the description of the service organization’s system, and, if the control objectives are specified by law, regulation, or another party (for example, a user group or a professional body), identifying in the description the party specifying the control objectives (Ref: par. .A16)
 - v. Identifying the risks that threaten the achievement of the control objectives stated in the description and designing, implementing, and documenting controls that are suitably designed and operating effectively to provide reasonable assurance that the control objectives stated in the description of the service organization’s system will be achieved (Ref: par. .A17)
 - vi. Providing a written assertion that accompanies management’s description of the service organization’s system, both of which will be provided to user entities (Ref: par. .A18)

.11 When the inclusive method is used, the service auditor should apply the requirements in sections 105, 205, and this section to the services provided by the subservice organization, as applicable, including the requirement to obtain management of the service organization’s acknowledgement and acceptance of responsibility for the matters in paragraph .10b of this section as they relate to the subservice organization. (Ref: par. .A19–.A20)

Request to Change the Scope of the Engagement

.12 As required by section 105, if management requests a change in the scope of the engagement before the completion of the engagement, the service auditor should not agree to a change in the

² Paragraphs .24–.28 of section 105, *Concepts Common to All Attestation Engagements*.

terms of the engagement when no reasonable justification for doing so exists.³ (Ref: par. .A21–.A22 and .A57)

Requesting a Written Assertion

.13 The practitioner should request from management of the service organization a written assertion. If management refuses to provide a written assertion, the practitioner should withdraw from the engagement when withdrawal is possible under applicable law or regulation. (Ref: par. .A23)

Assessing the Suitability of the Criteria

.14 As required by section 105, the service auditor should assess whether management has used suitable criteria in⁴ (Ref: par. .A25–.A26)

- a. preparing its description of the service organization's system,
- b. evaluating whether controls were suitably designed to achieve the control objectives stated in the description, and
- c. evaluating whether controls operated effectively throughout the specified period to achieve the control objectives stated in the description of the service organization's system, in the case of a type 2 report.

.15 In assessing the suitability of the criteria to evaluate whether management's description of the service organization's system is fairly presented, the service auditor should determine if the criteria include, at a minimum

- a. whether management's description of the service organization's system presents how the service organization's system was designed and implemented, including the following information about the service organization's system, if applicable:
 - i. The types of services provided, including, as appropriate, the classes of transactions processed.
 - ii. The procedures, within both automated and manual systems, by which services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities.
 - iii. The information used in the performance of the procedures, including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions.

³ Paragraph .29 of section 105.

⁴ Paragraph .25b(ii) of section 105.

This includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities.

- iv. How the service organization's system captures and addresses significant events and conditions other than transactions.
 - v. The process used to prepare reports and other information for user entities.
 - vi. Services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them. (Ref: par. .A37)
 - vii. The specified control objectives and controls designed to achieve those objectives, including, as applicable, complementary user entity controls and complementary subservice organization controls assumed in the design of the service organization's controls.
 - viii. Other aspects of the service organization's control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided. (Ref: par. .A15 and .A27)
- b. in the case of a type 2 report, whether management's description of the service organization's system includes relevant details of changes to the service organization's system during the period covered by the description (Ref: par. .A50)
 - c. whether management's description of the service organization's system does not omit or distort information relevant to the service organization's system, while acknowledging that management's description of the service organization's system is prepared to meet the common needs of a broad range of user entities and their user auditors, and may not, therefore, include every aspect of the service organization's system that each individual user entity and its user auditor may consider important in its own particular environment.

.16 In assessing the suitability of the criteria to evaluate whether the controls are suitably designed, the service auditor should determine if the criteria include, at a minimum, whether

- a. the risks that threaten the achievement of the control objectives stated in management's description of the service organization's system have been identified by management.
- b. the controls identified in management's description of the service organization's system would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.

.17 In assessing the suitability of the criteria to evaluate whether controls operated effectively to provide reasonable assurance that the control objectives stated in management's description of the service organization's system were achieved, the service auditor should determine if the criteria include, at a minimum, whether the controls were consistently applied as designed

throughout the specified period, including whether manual controls were applied by individuals who have the appropriate competence and authority.

.18 Section 205 requires a practitioner to request from the responsible party a written assertion about the measurement or evaluation of the subject matter against the criteria.⁵ The practitioner should determine that management's assertion addresses all the criteria management used to evaluate the fairness of the presentation of the description, the suitability of the design of the controls, and in a type 2 engagement, the operating effectiveness of the controls. (Ref: par. .A24)

Materiality

.19 The service auditor's consideration of materiality should include the fair presentation of management's description of the service organization's system, the suitability of the design of controls to achieve the related control objectives stated in the description and, in the case of a type 2 report, the operating effectiveness of the controls to achieve the related control objectives stated in the description. (Ref: par. .A28–.A30)

Obtaining an Understanding of the Service Organization's System and Assessing the Risk of Material Misstatement

.20 The service auditor should obtain an understanding of the service organization's system, including controls that are included in the scope of the engagement. That understanding should include service organization processes used to (Ref: par. .A31–.A33)

- a.* prepare the description of the service organization's system, including the determination of control objectives,
- b.* identify controls designed to achieve the control objectives,
- c.* assess the suitability of the design of the controls, and
- d.* in a type 2 report, assess the operating effectiveness of controls.

.21 If the service organization has an internal audit function, part of the service auditor's understanding of the service organization's system should include the following:

- a.* The nature of the internal audit function's responsibilities and how the internal audit function fits in the service organization's organizational structure
- b.* The activities performed, or to be performed, by the internal audit function as it relates to the service organization

⁵ Paragraph .10 of section 205.

.22 As required by section 205, the service auditor should identify the risks of material misstatement.⁶ (Ref: par. .A34–.A35)

.23 The service auditor should read the reports of the internal audit function and regulatory examinations that relate to the services provided to user entities and the scope of the engagement, if any, to obtain an understanding of the nature and extent of the procedures performed and the related findings. The findings should be taken into consideration as part of the risk assessment and in determining the nature, timing, and extent of the tests.

Responding to Assessed Risks and Further Procedures

.24 As required by paragraphs .25–.39 of this section and section 205, the service auditor should⁷

- a.* design and implement overall responses to address the assessed risks of material misstatement for the subject matter and
- b.* design and perform further procedures whose nature, timing, and extent are based on, and responsive to, the assessed risks of material misstatement.

Obtaining Evidence Regarding Management’s Description of the Service Organization’s System

.25 The service auditor should obtain and read management’s description of the service organization’s system and should evaluate whether those aspects of the description that are included in the scope of the engagement are presented fairly, in all material respects, based on the criteria in management’s assertion, including whether (Ref: par. .A28–.A29 and .A36–.A40)

- a.* the control objectives stated in management’s description of the service organization’s system are reasonable in the circumstances;
- b.* controls identified in management’s description of the service organization’s system were implemented;
- c.* complementary user entity controls and complementary subservice organization controls, if any, are adequately described; and
- d.* services performed by a subservice organization, if any, are adequately described, including whether the carve-out method or the inclusive method has been used in relation to them.

.26 The service auditor should determine through inquiries made in combination with other procedures whether the service organization’s system has been implemented. (Ref: par. .A40)

Obtaining Evidence Regarding the Design of Controls

⁶ Paragraph .18 of section 205.

⁷ Paragraphs .20–.21 of section 205.

.27 The service auditor should assess whether the controls that management identified in its description of the service organization's system as the controls that achieve the control objectives were suitably designed to achieve those control objectives by (Ref: par. .A28–.A29, .A36, and .A41–.A45)

- a. obtaining an understanding of management's process for identifying and evaluating the risks that threaten the achievement of the control objectives and assessing the completeness and accuracy of management's identification of those risks,
- b. evaluating the linkage of the controls identified in management's description of the service organization's system with those risks, including risks arising from each of the described classes of transactions and risks that IT poses to the user entity's internal control over financial reporting, and
- c. determining that the controls have been implemented.

Obtaining Evidence Regarding the Operating Effectiveness of Controls

.28 When performing a type 2 engagement, the service auditor should test those controls that management has identified in its description of the service organization's system as the controls that achieve the control objectives and should assess the operating effectiveness of those controls throughout the period. Evidence obtained in prior engagements about the satisfactory operation of controls in prior periods does not provide a basis for a reduction in testing, even if it is supplemented with evidence obtained during the current period. (Ref: par. .A28–.A30, .A36, and .A46–.A51)

.29 When performing a type 2 engagement, the service auditor should obtain an understanding of changes in the service organization's system that were implemented during the period covered by the service auditor's report. If the service auditor believes the changes would be considered significant by user entities and their auditors, the service auditor should determine whether those changes are included in management's description of the service organization's system. If such changes are not included in the description, the service auditor should describe the changes in the report and determine the effect on the report. If superseded controls are relevant to the achievement of the control objectives stated in the description, the service auditor should, if possible, test the superseded controls before the change. If the service auditor cannot test superseded controls relevant to the achievement of the control objectives stated in the description, the service auditor should determine the effect on the report. (Ref: par. .A50–.A51)

Evaluating the Reliability of Information Produced by the Service Organization

.30 When using information produced by the service organization, section 205 requires the service auditor to evaluate whether such information is sufficiently reliable for the service auditor's purposes by obtaining evidence about its accuracy and completeness and evaluating whether the information is sufficiently precise and detailed.⁸ (Ref: par. .A52)

⁸ Paragraph .35 of section 205.

.31 When designing and performing tests of controls, the service auditor should

- a. perform other procedures such as inspection, observation, or reperformance in combination with inquiry to obtain evidence about the following:
 - i. How the control was applied
 - ii. The consistency with which the control was applied
 - iii. By whom or by what means the control was applied
- b. determine whether the controls to be tested depend on other controls, and if so, whether it is necessary to obtain evidence supporting the operating effectiveness of those other controls.
- c. determine an effective method for selecting the items to be tested to meet the objectives of the procedure.

Nature and Cause of Deviations

.32 The service auditor should investigate the nature and cause of any deviations identified and should determine whether

- a. identified deviations are within the expected rate of deviation and are acceptable. If so, the testing that has been performed provides an appropriate basis for concluding that the control operated effectively throughout the specified period.
- b. additional testing of the control or other controls is necessary to reach a conclusion about whether the controls related to the control objectives stated in management's description of the service organization's system operated effectively throughout the specified period.
- c. the testing that has been performed provides an appropriate basis for concluding that the control did not operate effectively throughout the specified period.

.33 If, as a result of performing the procedures in paragraph .32, the service auditor becomes aware that any identified deviations have resulted from fraud by service organization personnel, the service auditor should assess the risk that management's description of the service organization's system is not fairly presented, the controls are not suitably designed and, in a type 2 engagement, the controls are not operating effectively. (Ref: par. .A36)

.34 If the service auditor becomes aware of incidents of noncompliance with laws or regulations, fraud or uncorrected misstatements attributable to management or other service organization personnel that are not clearly trivial and that may affect one or more user entities, the service auditor should determine the effect of such incidents on management's assertion, management's

description of the service organization's system, the achievement of the control objectives, and the service auditor's report.

Subsequent Events

.35 In performing subsequent events procedures as required by section 205, if the service auditor becomes aware of an event that is of such a nature and significance that its disclosure is necessary to prevent users of a type 1 or type 2 report from being misled, and information about that event is not disclosed by management in its description, the service auditor should disclose such event in the service auditor's report.⁹

Written Representations

.36 In addition to the written representations from management required by section 205, the service auditor should request written representations indicating that it has disclosed to the service auditor any of the following of which it is aware:¹⁰ (Ref: par. .A53–.A56)

- a. Instances of noncompliance with laws and regulations or uncorrected misstatements attributable to the service organization that may affect one or more user entities
- b. Knowledge of any actual, suspected, or alleged fraud by management or the service organization's employees that could adversely affect the fairness of the presentation of management's description of the service organization's system or the completeness or achievement of the control objectives stated in the description

.37 If a service organization uses a subservice organization and management's description of the service organization's system uses the inclusive method, the service auditor should also obtain the written representations identified in section 205 and paragraph .36 of this section from management of the subservice organization.¹¹ (Ref: par. .A53–.A56)

.38 In a type 1 or type 2 engagement, the practitioner should request from the responsible party (in this case, management of the service organization), the written representations required by section 205 and paragraph .36 of this section, even if the engaging party is not the responsible party. The alternative to obtaining the required written representations provided for in section 205 is not permitted in a type 1 or type 2 engagement.¹² The refusal by management of the service organization (or by management of a subservice organization that is being presented using the inclusive method) to furnish the written representations required by section 205 and paragraph .36 of this section constitutes a limitation on the scope of the engagement sufficient to preclude an unmodified opinion and may be sufficient to cause the service auditor to withdraw from the examination engagement when withdrawal is possible under applicable law or regulation.¹³ (Ref: par. .A53–.A57)

⁹ Paragraph .48 and .A56 of section 205.

¹⁰ Paragraph .50 of section 205.

¹¹ See footnote 10.

¹² Paragraph .51 of section 205.

¹³ Paragraphs .50, .55, and .A64 of section 205.

Other Information

.39 Section 205 contains requirements for situations in which prior to or after the release of the practitioner's report on subject matter or an assertion, the practitioner is willing to permit the inclusion of the report in a document that contains the subject matter or assertion on which the service auditor reported and other information.¹⁴ (Ref: par. .A58)

Content of the Service Auditor's Report

.40 A service auditor's type 2 report should include the following: (Ref: par. .A59–.A60)

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. Identification of the following:
 - i. Management's description of the service organization's system, the function performed by the system, and the period to which the description relates
 - ii. The criteria identified in management's assertion against which the fairness of the presentation of the description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description were evaluated
 - iii. Any information included in a document containing the report that is not covered by the report (Ref: par. .A58)
 - iv. Any services performed by a subservice organization and whether the carve-out method or the inclusive method was used in relation to them. Depending on which method is used, the following should be included:
 - (1) If the carve-out method was used, a statement indicating that (Ref: par. .A61)
 - (a) management's description of the service organization's system excludes the control objectives and related controls of the relevant subservice organizations
 - (b) certain control objectives specified by the service organization can be achieved only if complementary subservice organization controls assumed in the design of the service organization's controls are suitably designed and operating effectively
 - (c) the service auditor's procedures do not extend to such complementary subservice organization controls

¹⁴ Paragraph .57 of section 205.

- (2) If the inclusive method was used, a statement that management's description of the service organization's system includes the subservice organization's specified control objectives and related controls, and that the service auditor's procedures included procedures related to the subservice organization
- d.* A statement that the controls and control objectives included in the description are those that management believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the system that are not likely to be relevant to user entities' internal control over financial reporting.
- e.* If management's description of the service organization's system refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of the design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the description can be achieved only if complementary user entity controls are suitably designed and operating effectively, along with the controls at the service organization.
- f.* A reference to management's assertion and a statement that management is responsible for
- i.* preparing the description of the service organization's system and the assertion, including the completeness, accuracy, and method of presentation of the description and assertion.
 - ii.* providing the services covered by the description of the service organization's system.
 - iii.* specifying the control objectives and stating them in the description of the service organization's system.
 - iv.* identifying the risks that threaten the achievement of the control objectives.
 - v.* selecting the criteria.
 - vi.* designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description of the service organization's system.
- g.* A statement that the service auditor is responsible for expressing an opinion on the fairness of the presentation of management's description of the service organization's system and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description based on the service auditor's examination.
- h.* A statement that

- i. the examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii. those standards require that the service auditor plan and perform the examination to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's assertion, management's description of the service organization's system is fairly presented and the controls are suitably designed and operating effectively throughout the specified period to achieve the related control objectives.
 - iii. the service auditor believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the service auditor's opinion.
- i. A statement that an examination of management's description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves
 - i. performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description based on the criteria in management's assertion.
 - ii. assessing the risks that management's description of the service organization's system is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives.
 - iii. testing the operating effectiveness of those controls that management considers necessary to provide reasonable assurance that the related control objectives stated in management's description of the service organization's system were achieved.
 - iv. evaluating the overall presentation of management's description of the service organization's system, suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its assertion.
- j. A description of the inherent limitations of controls, including that projecting to the future any evaluation of the fairness of the presentation of management's description of the service organization's system or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become ineffective.
- k. A reference to a description of the service auditor's tests of controls and the results thereof that includes (Ref: par. .A62)
 - i. an identification of the controls that were tested.

- ii. whether the items tested represent all or a selection of the items in the population.
 - iii. the nature of the tests in sufficient detail to enable user auditors to determine the effect of such tests on their risk assessments.
 - iv. any identified deviations in the operation of controls included in the description, the extent of testing performed by the service auditor that led to the identification of the deviations (including the number of items tested), and the number and nature of the deviations noted (even if, on the basis of tests performed, the service auditor concludes that the related control objective was achieved). (Ref: par. .A63)
 - v. if the work of the internal audit function has been used in tests of controls to obtain evidence, a description of the internal auditor's work and of the service auditor's procedures with respect to that work. (Ref: par. .A64–.A66)
- l.* The service auditor's opinion on whether, in all material respects, based on the criteria described in management's assertion
- i. management's description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period.
 - ii. the controls related to the control objectives stated in management's description of the service organization's system were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the specified period.
 - iii. the controls operated effectively to provide reasonable assurance that the control objectives stated in management's description of the service organization's system were achieved throughout the specified period.
 - iv. if the application of complementary user entity controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a statement to that effect.
 - v. if the application of complementary subservice organization controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a statement to that effect.
- m.* An alert, in a separate paragraph, that restricts the use of the report. The alert should (Ref: par. .A67–.A72)
- i. state that the report, including the description of tests of controls and results thereof, is intended solely for the information and use of management of the service organization, user entities of the service organization's system during some or all of

- the period covered by the report, and the auditors who audit and report on such user entities' financial statements or internal control over financial reporting.
- ii. state that the report is not intended to be, and should not be, used by anyone other than the specified parties.¹⁵
 - n. The manual or printed signature of the service auditor's firm.
 - o. The city and state where the service auditor practices.
 - p. The date of the report. (The report should be dated no earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the service auditor's opinion, including evidence that
 - i. management's description of the service organization system has been prepared,
 - ii. management has provided a written assertion, and
 - iii. the attestation documentation has been reviewed.)

.41 A service auditor's type 1 report should include the following: (Ref: par. .A59 and .A72)

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. Identification of the following:
 - i. Management's description of the service organization's system, the function performed by the system, and the specified date to which the description relates.
 - ii. The criteria identified in management's assertion against which the fairness of the presentation of the description and the suitability of the design of the controls to achieve the related control objectives stated in the description were evaluated.
 - iii. Any information included in a document containing the report that is not covered by the report. (Ref: par. .A58)
 - iv. Any services performed by a subservice organization and whether the carve-out method or the inclusive method was used in relation to them. Depending on which method is used, the following should be included:
 - (1) If the carve-out method was used, a statement indicating that (Ref: par. .A61)
 - (a) management's description of the service organization's system excludes the

¹⁵ Paragraph .65 or .66 of section 205.

control objectives and related controls of the relevant subservice organizations.

- (b) certain control objectives specified by the service organization can be achieved only if complementary subservice organization controls assumed in the design of the service organization's controls are suitably designed and operating effectively.
- (c) the service auditor's procedures do not extend to such complementary subservice organization controls.

(2) If the inclusive method was used, a statement that management's description of the service organization's system includes the subservice organization's specified control objectives and related controls, and that the service auditor's procedures included procedures related to the subservice organization.

- d.* A statement that the controls and control objectives included in the description are those that management believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the system that are not likely to be relevant to user entities' internal control over financial reporting.
- e.* If management's description of the service organization's system refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of the design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the description can be achieved only if complementary user entity controls are suitably designed and operating effectively, along with the controls at the service organization.
- f.* A reference to management's assertion and a statement that management is responsible for
 - i.* preparing the description of the service organization's system and the assertion, including the completeness, accuracy, and method of presentation of the description and assertion.
 - ii.* providing the services covered by the description of the service organization's system.
 - iii.* specifying the control objectives and stating them in the description of the service organization's system.
 - iv.* identifying the risks that threaten the achievement of the control objectives.
 - v.* selecting the criteria.

- vi. designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description of the service organization's system.
- g. A statement that the service auditor is responsible for expressing an opinion on the fairness of the presentation of management's description of the service organization's system and on the suitability of the design of the controls to achieve the related control objectives stated in the description, based on the service auditor's examination.
- h. A statement that
 - i. the examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii. those standards require that the service auditor plan and perform the examination to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's assertion, management's description of the service organization's system is fairly presented, and the controls are suitably designed as of the specified date to achieve the related control objectives.
 - iii. the service auditor believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the service auditor's opinion.
- i. A statement that an examination of management's description of a service organization's system and the suitability of the design of the service organization's controls to achieve the related control objectives stated in the description involves
 - i. performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design of the controls to achieve the related control objectives stated in the description, based on the criteria in management's assertion.
 - ii. assessing the risks that management's description of the service organization's system is not fairly presented and that the controls were not suitably designed to achieve the related control objectives.
 - iii. evaluating the overall presentation of management's description of the service organization's system, suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its assertion.
- j. A description of the inherent limitations of controls, including that projecting to the future any evaluation of the fairness of the presentation of management's description of the service organization's system or conclusions about the suitability of the design of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become ineffective.

- k.* A statement the service auditor has not performed any procedures regarding the operating effectiveness of controls and, therefore, expresses no opinion thereon.
- l.* The service auditor's opinion on whether, in all material respects, based on the criteria described in management's assertion
 - i.* management's description of the service organization's system fairly presents the service organization's system that was designed and implemented as of the specified date.
 - ii.* the controls related to the control objectives stated in management's description of the service organization's system were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively as of the specified date.
 - iii.* if the application of complementary user entity controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a statement to that effect.
 - iv.* if the application of complementary subservice organization controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a statement to that effect.
- m.* An alert, in a separate paragraph, that restricts the use of the report. The alert should (Ref: par. .A67-.A72)
 - i.* state that the report is intended solely for the information and use of management of the service organization, user entities of the service organization's system as of the specified date, and the auditors who audit and report on such user entities' financial statements or internal control over financial reporting.
 - ii.* state that the report is not intended to be, and should not be, used by anyone other than the specified parties.¹⁶
- n.* The manual or printed signature of the service auditor's firm.
- o.* The city and state where the service auditor practices.
- p.* The date of the report. (The report should be dated no earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the service auditor's opinion, including evidence that
 - i.* management's description of the service organization system has been prepared,
 - ii.* management has provided a written assertion, and

¹⁶ Paragraph .65 or .66 of section 205.

iii. the attestation documentation has been reviewed.)

Modified Opinions

.42 The service auditor's opinion should be modified, and the service auditor's report should contain a clear description of all the reasons for the modification, if the service auditor concludes that, based on the criteria in management's assertion (Ref. par. .A73)

- a. management's description of the service organization's system is not fairly presented, in all material respects;
- b. the controls are not suitably designed to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved if the controls operated effectively, in all material respects;
- c. in the case of a type 2 report, the controls did not operate effectively throughout the specified period to achieve the related control objectives stated in management's description of the service organization's system, in all material respects; or
- d. the service auditor is unable to obtain sufficient appropriate evidence.

.43 If the service auditor plans to disclaim an opinion because of the inability to obtain sufficient appropriate evidence, and, based on the limited procedures performed, has concluded that, in all material respects, based on the criteria in management's assertion

- a. certain aspects of management's description of the service organization's system are not fairly presented,
- b. certain controls were not suitably designed to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved if the controls operated effectively, or
- c. in the case of a type 2 report, certain controls did not operate effectively throughout the specified period to achieve the related control objectives stated in management's description of the service organization's system, then

the service auditor should identify these findings in the service auditor's report.

.44 If the service auditor plans to disclaim an opinion, the service auditor *should not* identify the procedures that were performed nor include statements describing the characteristics of a service auditor's engagement in the service auditor's report—to do so might overshadow the disclaimer.

Other Communication Responsibilities

.45 In addition to the communication responsibilities in section 205, if the service auditor becomes aware of the matters identified in paragraph .34, the service auditor should determine

whether this information has been communicated appropriately to affected user entities.¹⁷ If the information has not been so communicated, and management of the service organization refuses to do so, the service auditor should take appropriate action. (Ref: par. .A74)

Application and Other Explanatory Material

Introduction (Ref: par. .01–.02 and .04)

.A1 Controls related to a service organization’s operations and compliance objectives may be relevant to a user entity’s internal control over financial reporting. Such controls may pertain to assertions about presentation and disclosure relating to account balances, classes of transactions or disclosures, or may pertain to evidence that the user auditor evaluates or uses in applying auditing procedures. For example, a payroll processing service organization’s controls related to the timely remittance of payroll deductions to government authorities may be relevant to a user entity because late remittances could incur interest and penalties that would result in a liability to the user entity. Similarly, a service organization’s controls over the acceptability of investment transactions from a regulatory perspective may be considered relevant to a user entity’s presentation and disclosure of transactions and account balances in its financial statements.

.A2 Section 105 requires the practitioner to consider applicable interpretive publications when planning and performing an attestation engagement.¹⁸ Additional interpretive guidance for a practitioner examining controls at a service organization relevant to user entities’ internal control over financial reporting is provided in the AICPA Guide *Service Organizations: Reporting on Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting*.

.A3 Paragraph .04 of this section refers to other engagements the practitioner may perform and report on under section 205 when reporting on controls at a service organization. Paragraph .04 is not, however, intended to

- alter the definitions of a *service organization* and *service organization’s system* in paragraph .08 to permit reports issued under this section to include in the description of the service organization’s system aspects of their services (including relevant control objectives and related controls) not likely to be relevant to user entities’ internal control over financial reporting, or
- permit a practitioner’s report to be issued that combines reporting under this section on a service organization’s controls that are likely to be relevant to user entities’ internal control over financial reporting, with reporting under section 205 on controls that are not likely to be relevant to user entities’ internal control over financial reporting.

.A4 When a service auditor conducts an engagement under section 205 to report on controls at a service organization other than those controls likely to be relevant to user entities’ internal

¹⁷ Paragraphs .85–.86 of section 205.

¹⁸ Paragraph .21 of section 105.

control over financial reporting, and the service auditor intends to use the guidance in this section in planning and performing that engagement, the service auditor may encounter matters that differ significantly from those associated with engagements to report on a service organization's controls likely to be relevant to user entities' internal control over financial reporting. The following are examples of such matters:

- Identification of suitable and available criteria, as prescribed in section 105, for evaluating the fairness of presentation of management's description of the service organization's system and the suitability of the design and the operating effectiveness of the controls¹⁹
- Identification of appropriate control objectives, and the basis for evaluating the reasonableness of the control objectives in the circumstances of the particular engagement
- Identification of the intended users of the report and the manner in which they intend to use the report
- Relevance and appropriateness of the definitions in paragraph .08, many of which specifically relate to internal control over financial reporting
- Application of references to auditing standards (AU-C sections) that are intended to provide the service auditor with guidance relevant to internal control over financial reporting
- Application of the concept of materiality in the circumstances of the particular engagement
- Developing the language to be used and identifying the elements to be included in a practitioner's examination report, as discussed in section 205²⁰

.A5 In some circumstances, management of the service organization may not be in a position to assert that the controls are suitably designed, for example, because the controls have been designed by management of the user entity. If management is unable to assert that the controls are suitably designed, management would also be precluded from asserting that the controls are operating effectively because of the inextricable link between the suitability of the design of controls and their operating effectiveness. The absence of an assertion with respect to the suitability of design of controls would preclude the service auditor from expressing an opinion on the operating effectiveness of controls. As an alternative, the practitioner may report under section 205 on whether the controls were operating as described or may perform agreed-upon procedures under section 215.

Definitions (Ref: par. .08)

¹⁹ Paragraph .25b(ii) of section 105.

²⁰ Paragraphs .63–.66 of section 205.

Complementary User Entity Controls

.A6 Complementary user entity controls are specific and relevant to the services provided by the service organization applicable to user entities' internal control over financial reporting.

Controls at a Service Organization

.A7 The policies and procedures referred to in the definition of *controls at a service organization* in paragraph .08 include aspects of the information and communications component of user entities' internal control maintained by the service organization and control activities related to the information and communications component and may also include aspects of one or more of the other components of internal control at a service organization. For example, the definition of *controls at a service organization* may include aspects of the service organization's control environment, risk assessment, monitoring activities, and control activities when they relate to the services provided. Such definition does not, however, include controls at a service organization that are not related to the achievement of the control objectives stated in management's description of the service organization's system, for example, controls related to the preparation of the service organization's own financial statements.

Service Organization's System

.A8 The policies and procedures referred to in the definition of *service organization's system* refer to the guidelines and activities for providing transaction processing and other services to user entities and include the infrastructure, software, people, and data that support the policies and procedures.

Subservice Organization

.A9 There may be instances in which a subservice organization uses the services of another service organization to perform services that are likely to be relevant to user entities' internal control over financial reporting. In those circumstances, the service organization that provides services to the subservice organization is also a subservice organization.

Management and Those Charged With Governance (Ref: par. .09)

.A10 For the purposes of this section, the responsible party is management of the service organization.

.A11 Management and governance structures vary by entity, reflecting influences such as size and ownership characteristics. Such diversity means that it is not possible for this section to specify for all engagements the person(s) with whom the service auditor is to interact regarding particular matters. For example, the service organization may be a segment of an organization and not a separate legal entity. In such cases, identifying the appropriate management personnel or those charged with governance from whom to request written representations may require the exercise of professional judgment.

Preconditions

Service Auditor Need Not Be Independent of User Entities (Ref: par. .10)

.A12 In performing a service auditor's engagement, the service auditor need not be independent of each user entity.

Law or Regulation Requires Acceptance or Continuance of Engagement (Ref: par. .10)

.A13 If one or more of the conditions in paragraph .10 of this section or in section 105 are not met and the service auditor is, nevertheless, required by law or regulation to accept or continue an engagement to report on controls at a service organization, the service auditor is required, in accordance with paragraphs .42–.44, to determine the effect on the service auditor's report of one or more of such conditions not being met.²¹

Management's Responsibility for Documenting the Service Organization's System (Ref: par. .10b[i])

.A14 Management of the service organization is responsible for documenting the service organization's system. No one particular form of documentation is prescribed, and the extent of documentation may vary depending on the size and complexity of the service organization and its monitoring activities.

Reasonable Basis for Management's Assertion (Ref: par. .10b[ii] and .15a[viii])

.A15 Management's monitoring activities may provide evidence of the design and operating effectiveness of controls in support of management's assertion. *Monitoring of controls* is a process to assess the effectiveness of internal control performance over time. It involves assessing the effectiveness of controls on a timely basis, identifying and reporting deficiencies to appropriate individuals within the service organization, and taking necessary corrective actions. Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and include regular management and supervisory activities. Internal auditors or personnel performing similar functions may contribute to the monitoring of a service organization's activities. Monitoring activities may also include using information communicated by external parties, such as customer complaints, which may indicate problems or highlight areas in need of improvement. The greater the degree and effectiveness of ongoing monitoring, the less need for separate evaluations. Usually, some combination of ongoing monitoring and separate evaluations will ensure that internal control maintains its effectiveness over time. The service auditor's report on controls is not a substitute for the service organization's own processes to provide a reasonable basis for its assertion.

Management's Responsibility for Control Objectives (Ref: par. .10b[iv])

²¹ Paragraphs .24–.28 of section 105.

.A16 The control objectives stated in management’s description of the service organization’s system relate to the types of financial statement assertions commonly embodied in the broad range of user entities’ financial statements to which controls at the service organization could reasonably be expected to relate.

Management’s Responsibility for Identifying Risks (Ref: par. .10b[v])

.A17 Control objectives relate to risks that controls seek to mitigate. For example, the risk that a transaction is recorded at the wrong amount or in the wrong period can be expressed as a control objective that transactions are recorded at the correct amount and in the correct period. Management is responsible for identifying the risks that threaten achievement of the control objectives stated in management’s description of the service organization’s system. A service organization’s controls may be designed with the assumption that user entities will have implemented complementary user entity controls or that subservice organizations will have implemented complementary subservice organization controls that are necessary to achieve the control objectives. The risks that management identifies also include the risk that such controls were not implemented by user entities or subservice organizations or that those controls were not operating effectively. Management may have a formal or informal process for identifying relevant risks. A formal process may include estimating the significance of identified risks, assessing the likelihood of their occurrence, and deciding about actions to address them. However, because control objectives relate to risks that controls seek to mitigate, thoughtful identification by management of control objectives when designing, implementing, and documenting the service organization’s system may itself comprise an informal process for identifying relevant risks.

Providing a Written Assertion (Ref: par. .10b[vi])

.A18 The service organization’s assertion may be attached to the description of the service organization’s system or may be included in the description if clearly segregated from the description, for example, through the use of headings. Segregating the assertion from the description clarifies that the assertion is not part of the description. (See subparagraph (b) of the definitions of *management’s description of a service organization’s system and a service auditor’s report on that description and on the suitability of the design of controls* and *management’s description of a service organization’s system and a service auditor’s report on that description and on the suitability of the design and operating effectiveness of controls* in paragraph .08.)

Inclusive Method (Ref: par. .11)

.A19 The inclusive method is generally feasible if, for example, the service organization and the subservice organization are related, or if the contract between the service organization and the subservice organization provides for the use of the inclusive method. In such circumstances, the service organization is the engaging party, and the requirements relative to agreeing on the terms of the engagement may not be applicable.

.A20 If the inclusive method is used, matters to be agreed upon or coordinated by the service organization and the subservice organization include

- the scope of the examination and the period to be covered by the service auditor’s report.
- acknowledgment from management of the subservice organization that it will provide the service auditor with a written assertion and representation letter. (Both management of the service organization and management of the subservice organization are responsible for providing the service auditor with a written assertion and representation letter.)
- the planned content and format of the inclusive description.
- the representatives of the subservice organization and the service organization who will be responsible for
 - providing each entity’s description.
 - integrating the descriptions.
- for a type 2 report, the timing of the tests of controls.

Request to Change the Scope of the Engagement (Ref: par. .12)

.A21 A request to change the scope of the engagement may not have a reasonable justification if, for example, the request is made

- to exclude certain control objectives at the service organization from the scope of the engagement because of the likelihood that the service auditor’s opinion would be modified with respect to those control objectives.
- to prevent the disclosure of deviations identified at a subservice organization by requesting a change from the inclusive method to the carve-out method.

.A22 A request to change the scope of the engagement may have a reasonable justification when, for example, the request is made because the service organization, a transfer agent, after providing the description of its system to the service auditor, decides that it would like to remove a control objective related to new fund setup because only one fund was set up during the reporting period, and management of the fund had performed its own testing. The service auditor concluded that the removal of the control objective related to new fund setup was reasonable in the circumstances because the objective was not relevant to a broad range of user entities during the examination period.

Requesting a Written Assertion (Ref: par. .13 and .18)

.A23 Paragraph .13 applies regardless of whether the responsible party is the engaging party.

.A24 Exhibit B, “Illustrative Assertions by Management of a Service Organization,” contains illustrative management assertions for type 1 and type 2 engagements.

Assessing the Suitability of the Criteria (Ref: par. .14)

.A25 Section 105 requires a practitioner, among other things, to determine whether the subject matter is capable of evaluation against criteria that are suitable and available to users.²² Section 105 also indicates that one of the attributes of an appropriate subject matter is that it is identifiable and capable of consistent measurement or evaluation against the criteria.²³ As indicated in section 105, the responsible party (in this case, management of the service organization) or the engaging party is responsible for selecting the criteria, and the engaging party is responsible for determining that such criteria are appropriate for its purposes.²⁴ Section 105 defines the *subject matter* as the phenomenon that is measured or evaluated by applying criteria.²⁵

.A26 For the purposes of engagements performed in accordance with this section, criteria need to be available to user entities and their auditors to enable them to understand the basis for the service organization’s assertion about the fair presentation of management’s description of the service organization’s system, the suitability of the design of controls that address control objectives stated in the description of the system and, in the case of a type 2 report, the operating effectiveness of such controls. Information about suitable criteria is provided in section 105.²⁶ Paragraphs .15–.17 discuss the criteria for evaluating the fairness of the presentation of management’s description of the service organization’s system and the suitability of the design and operating effectiveness of the controls.

Monitoring the Effectiveness of Controls at Subservice Organizations (Ref: par. .15a[viii])

.A27 Management’s description of the service organization’s system and the scope of the service auditor’s engagement includes controls at the service organization that monitor the effectiveness of controls at the subservice organization, which may include some combination of ongoing monitoring to determine that potential issues are identified timely and separate evaluations to determine that the effectiveness of internal control is maintained over time. Such monitoring activities may include

- reviewing and reconciling output reports,
- holding periodic discussions with the subservice organization,
- making regular site visits to the subservice organization,

²² Paragraph .25b(ii) of section 105.

²³ Paragraph .A37a of section 105.

²⁴ Paragraph .A47 of section 105.

²⁵ Definition of *subject matter* in paragraph .10 of section 105.

²⁶ See footnote 22.

- testing controls at the subservice organization by members of the service organization's internal audit function,
- reviewing type 1 or type 2 reports on the subservice organization's system prepared pursuant to this section or section 205, and
- monitoring external communications, such as customer complaints relevant to the services by the subservice organization.

Materiality (Ref: par. .19, .25, and .27–.28)

.A28 In an engagement to report on controls at a service organization, the concept of materiality relates to the information being reported on, not the financial statements of user entities. The service auditor plans and performs procedures to determine whether, in all material respects, based on the criteria in management's assertion, management's description of the service organization's system is fairly presented; controls at the service organization are suitably designed to achieve the control objectives stated in the description; and, in the case of a type 2 report, controls at the service organization operated effectively throughout the specified period to achieve the control objectives stated in the description. The concept of materiality takes into account that the service auditor's report provides information about the service organization's system to meet the common information needs of a broad range of user entities and their auditors who have an understanding of the manner in which the system is being used by a particular user entity for financial reporting.

.A29 Materiality with respect to the fair presentation of management's description of the service organization's system and with respect to the design of controls primarily includes the consideration of qualitative factors, for example, whether

- management's description of the service organization's system includes the significant aspects of the processing of transactions.
- management's description of the service organization's system omits or distorts relevant information.
- the controls have the ability, as designed, to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved.

Materiality with respect to the operating effectiveness of controls includes the consideration of both quantitative and qualitative factors, for example, the tolerable rate and observed rate of deviation (a quantitative matter) and the nature and cause of any observed deviations (a qualitative matter).

.A30 The concept of materiality is not applied when disclosing, in the description of the tests of controls, the results of those tests when deviations have been identified. This is because in the particular circumstances of a specific user entity or user auditor, a deviation may have

significance beyond whether or not, in the opinion of the service auditor, it prevents a control from operating effectively. For example, the control to which the deviation relates may be particularly significant in preventing a certain type of error that may be material in the particular circumstances of a user entity's financial statements.

Obtaining an Understanding of the Service Organization's System and Assessing the Risk of Material Misstatement (Ref: par. .20 and .22)

.A31 Obtaining an understanding of the service organization's system, including related controls, assists the service auditor in the following:

- Identifying the boundaries of the system and how it interfaces with other systems
- Assessing whether management's description of the service organization's system fairly presents the service organization's system that has been designed and implemented
- Understanding which controls are necessary to achieve the control objectives stated in management's description of the service organization's system, whether controls were suitably designed to achieve those control objectives, and, in the case of a type 2 report, whether controls were operating effectively throughout the specified period to achieve those control objectives.
- When a separate type 1 or type 2 report exists for a subservice organization, whether management has identified controls that are necessary, either at the service organization or at user entities, to address relevant complementary user entity controls identified in the carved-out subservice organization's description of its system.

.A32 Paragraph .15a(viii) indicates that the criteria for assessing whether management's description of the service organization's system is fairly presented should include other aspects of the service organization's control environment, risk assessment process, information and communications (including relevant business processes), control activities, and monitoring activities that are relevant to the services provided. Although aspects of the service organization's control environment, risk assessment process, and monitoring activities may not be presented in the description in the context of control objectives, they may, nevertheless, be necessary to achieve the specified control objectives stated in the description. Likewise, deficiencies in these controls may have an effect on the service auditor's assessment of whether the controls, taken as a whole, were suitably designed or operating effectively to achieve the specified control objectives.

.A33 The service auditor's procedures to obtain the understanding may include the following:

- Inquiring of management and others within the service organization who, in the service auditor's judgment, may have relevant information
- Observing operations and inspecting documents, reports, and printed and electronic records of transaction processing

- Inspecting a selection of agreements between the service organization and user entities to identify their common terms
- Reperforming the application of a control

One or more of the preceding procedures may be accomplished through the performance of a walkthrough.

.A34 In a type 1 or type 2 engagement, the risk of material misstatement relates to the risk that, in all material respects, based on the criteria in management's assertion

- a. management's description of the service organization's system is not fairly presented;
- b. the controls are not suitably designed to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved if the controls operated effectively; and
- c. in the case of a type 2 report, the controls did not operate effectively throughout the specified period to achieve the related control objectives stated in management's description of the service organization's system.

.A35 The risks identified in paragraph .A34 may include those related to new or changed controls, system changes, significant changes in processing volume, new personnel or significant changes in key management or personnel, new types of transactions, new products or technologies, or modifications to the service auditor's opinion in the service auditor's report for the prior year.

Reasonable Assurance (Ref: par. .25, .27–.28, and .33)

.A36 In a service auditor's examination engagement, the service auditor plans and performs the engagement to obtain reasonable assurance of detecting misstatements in management's description of the service organization's system and instances in which control objectives were not achieved. Absolute assurance is not attainable because of factors such as the need for judgment, the use of sampling, and the inherent limitations of controls at the service organization that affect whether the description is fairly presented and the controls are suitably designed and operating effectively to achieve the control objectives, and because much of the evidence available to the service auditor is persuasive, rather than conclusive, in nature. Also, procedures that are effective for detecting unintentional misstatements in the description, and instances in which control objectives were not achieved, may be ineffective for detecting misstatements in the description resulting from fraud and instances in which the control objectives were not achieved that are concealed through collusion between service organization personnel and a third party or among management or employees of the service organization. Therefore, the subsequent discovery of the existence of material misstatements in the description or instances in which control objectives were not achieved does not, in and of itself, evidence inadequate planning, performance, or judgment on the part of the service auditor.

Obtaining Evidence Regarding Management's Description of the Service Organization's System (Ref: par. .15a[vi] and .25-.26)

.A37 Considering the following questions may assist the service auditor in determining whether management's description of the service organization's system is fairly presented, in all material respects, based on the criteria in management's assertion:

- Is the description prepared at a level of detail that could reasonably be expected to provide a broad range of user auditors with sufficient information to obtain an understanding of internal control in accordance with AU-C section 402? The description need not address every aspect of the service organization's processing or the services provided to user entities and need not be so detailed that it would potentially enable a reader to compromise security or other controls at the service organization.
- Is the description prepared in a manner that does not omit or distort information that might affect the decisions of a broad range of user auditors, for example, does the description contain any significant omissions or inaccuracies regarding processing of which the service auditor is aware?
- Does the description include relevant details of changes to the service organization's system during the period covered by the description when the description covers a period of time?
- Have the controls identified in the description actually been implemented?
- If the inclusive method has been used, does the description separately identify controls at the service organization and controls at the subservice organization? Does the description include activities at the service organization that monitor the effectiveness of controls at the subservice organization?
- Are complementary user entity controls, if any, adequately described? In most cases, the control objectives stated in the description are worded so that they are capable of being achieved through the effective operation of controls implemented by the service organization alone. In some cases, however, the control objectives stated in the description cannot be achieved by the service organization alone because their achievement requires particular controls to be implemented by user entities. For example, to achieve the specified control objectives, a user entity may need to review the completeness and accuracy of input provided to the service organization before submitting it to the service organization or the completeness and accuracy of reports provided to the user entity subsequent to processing. When the description does include complementary user entity controls, the description separately identifies those controls, along with the specific control objectives that cannot be achieved by the service organization alone.
- If the carve-out method has been used, does the description identify the functions that

are performed by the subservice organization? (When the carve-out method has been used, the description does not describe the detailed processing or controls at the subservice organization.) Does the description include activities at the service organization that monitor the effectiveness of controls at the subservice organization as well as complementary subservice organization controls?

.A38 The service auditor's procedures to evaluate the fair presentation of management's description of the service organization's system may include the following:

- Considering the nature of the user entities and how the services provided by the service organization are likely to affect them, for example, the predominant types of user entities, and whether the user entities are regulated by government agencies
- Reading contracts with user entities to gain an understanding of the service organization's contractual obligations
- Observing procedures performed by service organization personnel
- Reviewing the service organization's policy and procedure manuals and other documentation of the system, for example, flowcharts and narratives
- Performing walkthroughs of transactions through the service organization's system

.A39 Paragraph .25a requires the service auditor to evaluate whether the control objectives stated in management's description of the service organization's system are reasonable in the circumstances. Considering the following questions may assist the service auditor in this evaluation:

- Do the control objectives stated in the description relate to the types of assertions commonly embodied in the broad range of user entities' financial statements to which controls at the service organization could reasonably be expected to relate (for example, assertions about existence and accuracy that are affected by access controls that prevent or detect unauthorized access to the system)? Although the service auditor ordinarily will not be able to determine how controls at a service organization specifically relate to the assertions embodied in individual user entities' financial statements, the service auditor considers matters, such as the following, when identifying the types of assertions to which the controls are likely to relate:
 - The types of services provided by the service organization, including the classes of transactions processed
 - The contents of reports and other information prepared for user entities
 - The information used in the performance of procedures
 - The types of significant events other than transactions that occur in providing the services

- Services performed by a subservice organization, if any
 - The responsibility of the service organization to implement controls, including responsibilities established in contracts and agreements with user entities
 - The risks to a user entity's internal control over financial reporting arising from information technology used or provided by the service organization
- Are the control objectives stated in the description complete? Although a complete set of control objectives can provide a broad range of user auditors with a framework to assess the effect of controls at the service organization on assertions commonly embodied in user entities' financial statements, the service auditor ordinarily will not be able to determine how controls at a service organization specifically relate to the assertions embodied in individual user entities' financial statements and cannot, therefore, determine whether control objectives are complete from the viewpoint of individual user entities or user auditors. It is the responsibility of individual user entities or user auditors to assess whether the service organization's description addresses the particular control objectives that are relevant to their needs. If the control objectives are specified by an outside party, including control objectives specified by law or regulation, the outside party is responsible for their completeness and reasonableness.

.A40 The service auditor's procedures to determine whether the system described by the service organization has been implemented may be similar to, and performed in conjunction with, procedures to obtain an understanding of that system. Other procedures that the service auditor may use in combination with inquiry of management and other service organization personnel include observation, inspection of records and other documentation, and reperformance of the manner in which transactions are processed through the system and controls are applied.

Obtaining Evidence Regarding the Design of Controls (Ref: par. .27)

.A41 The risks and control objectives identified in paragraph .27 encompass fraud and unintentional acts that threaten the achievement of the control objectives.

.A42 From the viewpoint of a user auditor, a control is suitably designed to achieve the control objectives stated in management's description of the service organization's system if individually or in combination with other controls, it would, when complied with satisfactorily, provide reasonable assurance that material misstatements are prevented, or detected and corrected. A service auditor, however, is not aware of the circumstances at individual user entities that would affect whether or not a misstatement is material to those user entities. Therefore, from the viewpoint of a service auditor, a control is suitably designed if individually or in combination with other controls, it would, when complied with satisfactorily, provide reasonable assurance that the control objective(s) stated in the description of the service organization's system are achieved.

.A43 A service auditor may consider using flowcharts, questionnaires, or decision tables to facilitate understanding the design of the controls.

.A44 Controls may consist of a number of activities directed at the achievement of various control objectives. Consequently, if the service auditor evaluates certain activities as being ineffective in achieving a particular control objective, the existence of other activities may allow the service auditor to conclude that controls related to the control objective are suitably designed to achieve the control objective. (Ref: par. .27)

.A45 The service organization may have different controls in place to address each of the risks associated with the control objective; therefore, multiple controls may be needed in order for the service auditor to conclude on the design of controls relating to each of the risks associated with the control objective.

Obtaining Evidence Regarding the Operating Effectiveness of Controls (Ref: par. .15b and .28-.29)

.A46 From the viewpoint of a user auditor, a control is operating effectively if individually or in combination with other controls, it provides reasonable assurance that material misstatements are prevented, or detected and corrected. A service auditor, however, is not aware of the circumstances at individual user entities that would affect whether or not a misstatement resulting from a control deviation is material to those user entities. Therefore, from the viewpoint of a service auditor, a control is operating effectively if, individually or in combination with other controls, it provides reasonable assurance that the control objectives stated in management's description of the service organization's system are achieved. Similarly, a service auditor is not in a position to determine whether any observed control deviation would result in a material misstatement from the viewpoint of an individual user entity.

.A47 Obtaining an understanding of controls sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness unless some automation provides for the consistent operation of the controls as they were designed and implemented. For example, obtaining information about the implementation of a manual control at a point in time does not provide evidence about operation of the control at other times. However, because of the inherent consistency of IT processing, performing procedures to determine the design of an automated application control and whether it has been implemented may serve as evidence of that control's operating effectiveness, depending on the service auditor's assessment and testing of IT general controls such as those over program changes.

.A48 Evidence about the satisfactory operation of controls in prior periods does not provide evidence of the operating effectiveness of controls during the current period. The service auditor expresses an opinion on the effectiveness of controls throughout each period; therefore, sufficient appropriate evidence about the operating effectiveness of controls throughout the current period is required for the service auditor to express that opinion for the current period. Knowledge of modifications to the service auditor's report or deviations observed in prior engagements may, however, be considered in assessing risk and lead the service auditor to increase the extent of testing during the current period.

.A49 Generally, a type 2 report(s) is most useful to user entities and their auditors when it covers a substantial portion of the period covered by the user entity's financial statements being audited.

.A50 Determining the effect of changes in the service organization's controls that were implemented during the period covered by the service auditor's report involves gathering information about the nature and extent of such changes, how they affect processing at the service organization, and how they might affect assertions in the user entities' financial statements.

.A51 Certain controls may not leave evidence of their operation that can be tested at a later date and, accordingly, the service auditor may find it appropriate to test the operating effectiveness of such controls at various times throughout the reporting period.

Evaluating the Reliability of Information Produced by the Service Organization (Ref: par. .30)

.A52 The following are examples of information produced by a service organization that are commonly used by a service auditor:

- Population lists the service auditor uses to select a sample of items for testing
- Lists of data that have specific characteristics
- Exception reports
- Transaction reconciliations
- Documentation that provides evidence of the operating effectiveness of controls, such as user access lists
- System-generated reports
- Other system-generated data

Written Representations (Ref: par. .12 and .36–.38)

.A53 Written representations reaffirming the service organization's assertion about the effective operation of controls may be based on ongoing monitoring activities, separate evaluations, or a combination of the two.

.A54 In certain circumstances, a service auditor may obtain written representations from parties in addition to management of the service organization, such as those charged with governance.

.A55 The written representations required by paragraph .36 are separate from and in addition to the assertion that accompanies management's description of the service organization's system.

.A56 In addition to the written representations required by paragraph .36, the service auditor may consider it necessary to request other written representations.

.A57 If the service auditor is unable to obtain written representations regarding relevant control objectives and related controls at the subservice organization, management of the service organization may be able to use the carve-out method.

Other Information (Ref: par. .39, .40c[iii], and .41c[iii])

.A58 The other information referred to in paragraph .39 may include

- information provided by the service organization and included in a separate section of the type 1 or type 2 report, or
- information outside the type 1 or type 2 report included in a document that contains the service auditor's report. This other information may be provided by the service organization or another party.

Content of the Service Auditor's Report (Ref: par. .40 and .41)

.A59 Examples of service auditors' reports are presented in exhibit A of this section, and illustrative assertions by management of the service organization are presented in exhibit B.

.A60 The list of report elements in paragraphs .40 and .41 constitutes all the required report elements for a service auditor's type 2 and type 1 engagement, respectively, including the elements required by section 205.²⁷ Application guidance regarding the elements of a practitioner's examination report is included in section 205.²⁸ (Ref: par. .40)

.A61 The following is an example of the information required by paragraphs .40c(iv)(1) and .41c(iv)(1):

As indicated in the description, XYZ Service Organization uses a subservice organization for all of its computerized application processing. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified by XYZ Service Organization can be achieved only if complementary subservice organization controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at XYZ Service Organization. Our examination did not extend to controls of the subservice organization, and we have not evaluated the suitability of the design or operating effectiveness of such complementary subservice organization controls.

Description of the Service Auditor's Tests of Controls and the Results Thereof (Ref: par. .40k)

.A62 The service auditor may include in the description of tests of controls and results the

²⁷ Paragraphs .63–.66 of section 205.

²⁸ Paragraphs .A78–.A101.

procedures the service auditor performed to verify the completeness and accuracy of information provided by the service organization.

.A63 In describing the service auditor’s tests of controls and results thereof for a type 2 report, it is helpful to readers if the service auditor’s report includes information about causative factors for identified deviations, to the extent the service auditor has identified such factors.

.A64 When the work of the internal audit function has been used in performing tests of controls, the service auditor’s description of that work and of the service auditor’s procedures with respect to that work may be presented in a number of ways, for example

- by including introductory material to the description of tests of controls indicating that certain work of the internal audit function was used in performing tests of controls and describing the service auditor’s procedures with regard to that work.
- by attributing individual tests to internal audit and describing the service auditor’s procedures with regard to that work.

.A65 The work of the internal audit function referred to in paragraph .40k(v) does not include tests of controls performed by internal auditors as a part of direct assistance.

.A66 Other than the description of the work of the internal auditors referred to in paragraph 40k(v), the service auditor’s report does not make any reference to the use of the work of the internal audit function to obtain evidence or to the use of internal auditors to provide direct assistance.

Use of the Service Auditor’s Report (Ref: par. .40m and .41m)

.A67 Section 205 requires that the use of a practitioner’s report be restricted to specified parties when the criteria used to evaluate or measure the subject matter are available only to specified parties or appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria.²⁹ The criteria used for engagements to report on controls at a service organization are relevant only for the purpose of providing information about the service organization’s system, including controls, to those who have an understanding of how the system is used for financial reporting by user entities and, accordingly, the service auditor’s report states that the report and the description of tests of controls are intended only for use by management of the service organization, user entities of the service organization (“during some or all of the period covered by the service auditor’s report” for a type 2 report, and “as of the specified date” for a type 1 report), and their user auditors. (The illustrative reports in exhibit A of this section illustrate language for a paragraph restricting the use of the report.)

.A68 Section 205 indicates that the need for restriction on the use of a practitioner’s report may result from a number of circumstances, including the potential for the report to be misunderstood when taken out of the context in which it was intended to be used, and the extent to which the

²⁹ Paragraph .64b of section 205.

procedures performed are known or understood.³⁰

.A69 Although the alert language in the service auditor's report restricts the use of the report, a service auditor is not responsible for controlling a service organization's distribution of a report. A service auditor may inform the service organization of the following:

- A service auditor's type 1 report is not intended for distribution to parties other than the service organization, user entities of the service organization's system as of the end of the period covered by the report, and their user auditors.
- A service auditor's type 2 report is not intended for distribution to parties other than the service organization, user entities of the service organization's system during some or all of the period covered by the report, and their user auditors.

.A70 A user entity is also considered a user entity of the service organization's subservice organizations if controls at subservice organizations are relevant to internal control over financial reporting of the user entity. In such case, the user entity is referred to as an *indirect* or *downstream* user entity of the subservice organization. Consequently, an indirect or downstream user entity may be included in the group to whom use of the service auditor's report is restricted if controls at the service organization are relevant to internal control over financial reporting of such indirect or downstream user entity.

.A71 In engagements in which the inclusive method is used, the users of a subservice organization's system that are not users of the service organization's system, are not *user entities*, as defined in paragraph .08.

.A72 In engagements in which the inclusive method is used, management of a subservice organization may be identified as a specified party and, if so, would be included in the alert language described in paragraphs .40m and .41m.

Modified Opinions (Ref: par. .42)

.A73 The AICPA Guide *Service Organizations: Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting* contains examples of elements of modified service auditor's reports.

Other Communication Responsibilities (Ref: par. .45)

.A74 Actions that a service auditor may take when the service auditor becomes aware of noncompliance with laws or regulations, fraud, or uncorrected misstatements at the service organization (after giving additional consideration to instances in which the service organization has not appropriately communicated this information to affected user entities, and the service organization refuses to do so) include the following:

- Obtaining legal advice about the consequences of different courses of action

³⁰ Paragraph .A100 of section 205.

- Communicating with those charged with governance of the service organization
- Disclaiming an opinion, modifying the service auditor's opinion, or adding an explanatory paragraph
- Communicating with third parties, for example, a regulator, when required to do so
- Withdrawing from the engagement
- Considering the nature of the user entities and how the services provided by the service organization are likely to affect them, for example, the predominant types of user entities, and whether the user entities are regulated by government agencies
- Reading contracts with user entities to gain an understanding of the service organization's contractual obligations
- Observing procedures performed by service organization personnel
- Reviewing the service organization's policy and procedure manuals and other documentation of the system, for example, flowcharts and narratives
- Performing walkthroughs of transactions through the service organization's system

Exhibit A—Illustrative Service Auditor’s Reports

The following illustrative service auditor’s reports contain text in ***boldface italics*** that would be added to the report if the situation described in the text is applicable. These illustrative reports are for guidance only and are not intended to be exhaustive or applicable to all situations. The inclusion of headings in the report may be useful but is not required by this section or section 205.¹ The AICPA Guide *Service Organizations: Reporting on Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting* includes additional illustrative reports, including reports with modified opinions.

Example 1: Type 2 Service Auditor’s Report

Independent Service Auditor’s Report² on XYZ Service Organization’s Description of Its [type or name of] System and the Suitability of the Design and Operating Effectiveness of Controls

To: XYZ Service Organization

Scope

We have examined XYZ Service Organization’s description of its [type or name of] system entitled “XYZ Service Organization’s Description of Its [type or name of] System” for processing user entities’ transactions [or identification of the function performed by the system] throughout the period [date] to [date] (description) and the suitability of the design and operating effectiveness of the controls included in the description to achieve the related control objectives stated in the description, based on the criteria identified in “XYZ Service Organization’s Assertion” (assertion). The controls and control objectives included in the description are those that management of XYZ Service Organization believes are likely to be relevant to user entities’ internal control over financial reporting, and the description does not include those aspects of the [type or name of] system that are not likely to be relevant to user entities’ internal control over financial reporting.

[A statement such as the following is added to the service auditor’s report when information that is not covered by the report is included in the description of the service organization’s system.]

The information included in [section number where the other information is presented], “Other Information Provided by XYZ Service Organization” is presented by management of XYZ Service Organization to provide additional information and is not a part of XYZ Service Organization’s description of its [name or type of] system made available to user entities during the period [date] to [date]. Information about XYZ Service Organization’s [describe the nature of the information, for example, business continuity planning, privacy practices, and so on] has not been subjected to the procedures applied in the examination of the

¹ Paragraph .A76 of section 205.

² May also be “Report of Independent Service Auditors.”

description of the [name or type of] system and of the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description of the [name or type of] system.

[A statement such as the following is added to the service auditor's report when the service organization uses a subservice organization, the carve-out method is used to present the subservice organization, and complementary subservice organization controls are required to meet the control objectives.]

XYZ Service Organization uses a subservice organization to [identify the function or service provided by the subservice organization]. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified by XYZ Service Organization can be achieved only if complementary subservice organization controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with the related controls at XYZ Service Organization. Our examination did not extend to controls of the subservice organization, and we have not evaluated the suitability of the design or operating effectiveness of such complementary subservice organization controls.

[A statement such as the following is added to the service auditor's report when complementary user entity controls are required to meet the control objectives.]

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at the service organization. Our examination did not extend to such complementary user entity controls, and we have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

Service Organization's Responsibilities

In [section number where the assertion is presented], XYZ Service Organization has provided an assertion about the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. XYZ Service Organization is responsible for preparing the description and assertion, including the completeness, accuracy, and method of presentation of the description and assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria stated in the assertion, and designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on our examination.

Our 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, in all material respects, based on the criteria in management's assertion, the description is fairly presented and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description throughout the period *[date]* to *[date]*. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of controls involves

- performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on the criteria in management's assertion.
- assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the description.
- testing the operating effectiveness of those controls that management considers necessary to provide reasonable assurance that the related control objectives stated in the description were achieved.
- evaluating the overall presentation of the description, suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its assertion.

Inherent Limitations

The description is prepared to meet the common needs of a broad range of user entities and their auditors who audit and report on user entities' financial statements and may not, therefore, include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all misstatements in processing or reporting transactions [*or identification of the function performed by the system*]. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives, is subject to the risk that controls at a service organization may become ineffective.

Description of Tests of Controls

The specific controls tested and the nature, timing, and results of those tests are listed in [*section number where the description of tests of controls is presented*].

Opinion

In our opinion, in all material respects, based on the criteria described in XYZ Service Organization's assertion

- a. the description fairly presents the [*type or name of*] system that was designed and implemented throughout the period [*date*] to [*date*].
- b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period [*date*] to [*date*] ***and subservice organizations and user entities applied the complementary controls assumed in the design of XYZ Service Organization’s controls throughout the period [date] to [date].***
- c. the controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period [*date*] to [*date*] ***if complementary subservice organization and user entity controls assumed in the design of XYZ Service Organization’s controls operated effectively throughout the period [date] to [date].***

Restricted Use

This report, including the description of tests of controls and results thereof in [*section number where the description of tests of controls is presented*], is intended solely for the information and use of management of XYZ Service Organization, user entities of XYZ Service Organization’s [*type or name of*] system during some or all of the period [*date*] to [*date*], and their auditors who audit and report on such user entities’ financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities themselves, when assessing the risks of material misstatement of user entities’ financial statements. This report is not intended to be, and should not be, used by anyone other than the specified parties.

[*Service auditor’s signature*]

[*Service auditor’s city and state*]

[*Date of the service auditor’s report*]

Example 2: Type 1 Service Auditor’s Report

Independent Service Auditor’s Report³ on XYZ Service Organization’s Description of Its [*type or name of*] System and the Suitability of the Design of Controls

To: XYZ Service Organization

We have examined XYZ Service Organization’s description of its [*type or name of*] system entitled, “XYZ Service Organization’s Description of Its [*type or name of*] System,” for processing user entities’ transactions [*or identification of the function performed by the system*] as of [*date*] (description) and the suitability of the design of the controls included in the description to achieve the related control objectives stated in the description, based on the criteria identified in “XYZ Service Organization’s Assertion” (assertion). The controls and control

³ May also be “Report of Independent Service Auditors.”

objectives included in the description are those that management of XYZ Service Organization believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the [type or name of] system that are not likely to be relevant to user entities' internal control over financial reporting.

[A statement such as the following is added to the service auditor's report when information that is not covered by the report is included in the description of the service organization's system.]

The information included in [section number where the other information is presented], "Other Information Provided by XYZ Service Organization," is presented by management of XYZ Service Organization to provide additional information and is not a part of XYZ Service Organization's description of its [name or type of] system made available to user entities as of [date]. Information about XYZ Service Organization's [describe the nature of the information, for example, business continuity planning, privacy practices, and so on] has not been subjected to the procedures applied in the examination of the description of the [name or type of] system and of the suitability of the design of controls to achieve the related control objectives stated in the description of the [name or type of] system.

[A statement such as the following is added to the report when the service organization uses a subservice organization, the carve-out method is used to present the subservice organization, and complementary subservice organization controls are required to meet the control objectives.]

XYZ Service Organization uses a subservice organization to [identify the function or service provided by the subservice organization]. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified by XYZ Service Organization can be achieved only if complementary subservice organization controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with the related controls at XYZ Service Organization. Our examination did not extend to controls of the subservice organization, and we have not evaluated the design or operating effectiveness of such complementary subservice organization controls.

[A statement such as the following is added to the service auditor's report when complementary user entity controls are required to meet the control objectives.]

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at the service organization. Our examination did not extend to such complementary user entity controls, and we have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

Service Organization's Responsibilities

In [section number where assertion is presented], XYZ Service Organization has provided an

assertion about the fairness of the presentation of the description and suitability of the design of the controls to achieve the related control objectives stated in the description. XYZ Service Organization is responsible for preparing the description and its assertion, including the completeness, accuracy, and method of presentation of the description and assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria stated in the assertion, and designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design of the controls to achieve the related control objectives stated in the description, based on our examination.

Our 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, in all material respects, based on the criteria in management's assertion, the description is fairly presented and the controls were suitably designed to achieve the related control objectives stated in the description as of [date]. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

An examination of a description of a service organization's system and the suitability of the design of controls involves

- performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design of the controls to achieve the related control objectives stated in the description, based on the criteria in management's assertion.
- assessing the risks that the description is not fairly presented and that the controls were not suitably designed to achieve the related control objectives stated in the description.
- evaluating the overall presentation of the description, suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its assertion.

Inherent Limitations

The description is prepared to meet the common needs of a broad range of user entities and their auditors who audit and report on user entities' financial statements and may not, therefore, include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all misstatements in processing or reporting transactions [*or identification of the function performed by the system*]. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design of the controls to achieve the related control objectives, is subject to the risk that controls at a service organization may become ineffective.

Other Matter

We did not perform any procedures regarding the operating effectiveness of controls stated in the description and, accordingly, do not express an opinion thereon.

Opinion

In our opinion, in all material respects, based on the criteria described in XYZ Service Organization's assertion

- a. the description fairly presents the [*type or name of*] system that was designed and implemented as of [*date*].
- b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively as of [*date*] **and subservice organizations and user entities applied the complementary controls assumed in the design of XYZ Service Organization's controls as of [date].**

Restricted Use

This report is intended solely for the information and use of management of XYZ Service Organization, user entities of XYZ Service Organization's [*type or name of*] system as of [*date*], and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be, and should not be, used by anyone other than the specified parties.

[*Service auditor's signature*]

[*Service auditor's city and state*]

[*Date of the service auditor's report*]

Exhibit B—Illustrative Assertions by Management of a Service Organization

Paragraph .10b(vi) indicates that one of the preconditions for a service auditor to accept or continue an engagement is that management acknowledge and accept responsibility for providing a written assertion that accompanies management’s description of the service organization’s system. Paragraph .A18 indicates that the service organization has the option of attaching the assertion to the description of the service organization’s system or including it in the description and clearly segregating the assertion from the description, for example, through the use of headings. Segregating the assertion from the description clarifies that the assertion is not part of the description.

The following illustrative management assertions contain text in boldface italics that would be added to management’s assertion if the situation described in the text is applicable. These illustrative assertions are for guidance only and are not intended to be exhaustive or applicable to all situations.

Example 1: Assertion by Management of a Service Organization for a Type 2 Report

XYZ Service Organization’s Assertion

We have prepared the description of XYZ Service Organization’s [*type or name of*] system entitled, “XYZ Service Organization’s Description of Its [*type or name of*] System,” for processing user entities’ transactions [*or identification of the function performed by the system*] throughout the period [*date*] to [*date*] (description) for user entities of the system during some or all of the period [*date*] to [*date*], and their auditors who audit and report on such user entities’ financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, ***including information about controls implemented by subservice organizations and user entities of the system themselves***, when assessing the risks of material misstatement of user entities’ financial statements.

[*A statement such as the following is added to the assertion when the service organization uses a subservice organization, the carve-out method is used to present the subservice organization, and complementary subservice organization controls are required to meet the control objectives.*]

XYZ Service Organization uses a subservice organization to [identify the function or service provided by the subservice organization]. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified in the description can be achieved only if complementary subservice organization controls assumed in the design of our controls are suitably designed and operating effectively, along with the related controls. The description does not extend to controls of the subservice organization.

[A statement such as the following is added to the service auditor's report when complementary user entity controls are required to meet the control objectives.]

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at the service organization. The description does not extend to controls of the user entities.

We confirm, to the best of our knowledge and belief, that

- a. the description fairly presents the [type or name of] system made available to user entities of the system during some or all of the period [date] to [date] for processing their transactions [or identification of the function performed by the system] as it relates to controls that are likely to be relevant to user entities' internal control over financial reporting. The criteria we used in making this assertion were that the description
 - i. presents how the system made available to user entities of the system was designed and implemented to process relevant user entity transactions, including, if applicable,
 - (1) the types of services provided, including, as appropriate, the classes of transactions processed.
 - (2) the procedures, within both automated and manual systems, by which those services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system.
 - (3) the information used in the performance of the procedures including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities.
 - (4) how the system captures and addresses significant events and conditions other than transactions.
 - (5) the process used to prepare reports and other information for user entities.
 - (6) services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them.
 - (7) the specified control objectives and controls designed to achieve those objectives,

including, as applicable, complementary user entity controls and complementary subservice organization controls assumed in the design of the service organization's controls.

- (8) other aspects of our control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided.
- ii. includes relevant details of changes to the service organization's system during the period covered by the description.
 - iii. does not omit or distort information relevant to the service organization's system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and their user auditors, and may not, therefore, include every aspect of the [*type or name of*] system that each individual user entity of the system and its auditor may consider important in its own particular environment.
- b. the controls related to the control objectives stated in the description were suitably designed and operating effectively throughout the period [*date*] to [*date*] to achieve those control objectives *if subservice organizations and user entities applied the complementary controls assumed in the design of XYZ Service Organization's controls throughout the period [date] to [date]*. The criteria we used in making this assertion were that
- i. the risks that threaten the achievement of the control objectives stated in the description have been identified by management of the service organization.
 - ii. the controls identified in the description would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.
 - iii. the controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

Example 2: Assertion by Management of a Service Organization for a Type 1 Report

XYZ Service Organization's Assertion

We have prepared the description of XYZ Service Organization's [*type or name of*] system entitled, "XYZ Service Organization's Description of Its [*type or name of*] System," for processing user entities' transactions [*or identification of the function performed by the system*] as of [*date*] (description) for user entities of the system as of [*date*], and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, including information about controls *implemented by subservice organizations and user entities*

themselves, when obtaining an understanding of user entities' information and communication systems relevant to financial reporting.

[A statement such as the following is added to the assertion when the service organization uses a subservice organization, the carve-out method is used to present the subservice organization, and complementary subservice organization controls are required to meet the control objectives.]

XYZ Service Organization uses a subservice organization to [identify the function or service provided by the subservice organization]. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization(s). The description also indicates that certain control objectives specified in the description can be achieved only if complementary subservice organization controls assumed in the design of our controls are suitably designed and operating effectively, along with the related controls. The description does not extend to controls of the subservice organization.

[A statement such as the following is added to the service auditor's report when complementary user entity controls are required to meet the control objectives.]

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at the service organization. The description does not extend to controls of the user entities.

We confirm, to the best of our knowledge and belief, that

- a. the description fairly presents the [*type or name of*] system made available to user entities of the system as of [*date*] for processing their transactions [*or identification of the function performed by the system*] as it relates to controls that are likely to be relevant to user entities' internal control over financial reporting. The criteria we used in making this assertion were that the description
 - i. presents how the system made available to user entities of the system was designed and implemented to process relevant transactions, including, if applicable
 - (1) the types of services provided, including, as appropriate, the classes of transactions processed.
 - (2) the procedures, within both automated and manual systems, by which those services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system.

- (3) the information used in the performance of the procedures including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities.
 - (4) how the system captures and addresses significant events and conditions other than transactions.
 - (5) the process used to prepare reports and other information for user entities.
 - (6) services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them.
 - (7) the specified control objectives and controls designed to achieve those objectives, including, as applicable, complementary user entity controls and complementary subservice organization controls assumed in the design of the service organization's controls.
 - (8) other aspects of our control environment, risk assessment process, information and communication systems (including the related business processes), control activities, and monitoring activities that are relevant to the services provided.
- ii. does not omit or distort information relevant to the service organization's system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and their user auditors, and may not, therefore, include every aspect of the *[type or name of]* system that each individual user entity of the system and its auditor may consider important in its own particular environment.
- b. the controls related to the control objectives stated in the description were suitably designed as of *[date]* to achieve those control objectives ***if subservice organizations and user entities applied the complementary controls assumed in the design of XYZ Service Organization's controls as of [date].*** The criteria we used in making this assertion were that
- i. the risks that threaten the achievement of the control objectives stated in the description have been identified by management of the service organization.
 - ii. the controls identified in the description would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.

AT-C Section 395*

[Designated for AT Section 701, *Management’s Discussion and Analysis* (AICPA, *Professional Standards*)]

NOTE

SSAE No. 18 does not supersede chapter 7, “Management’s Discussion and Analysis,” of SSAE No. 10, *Attestation Standards: Revision and Recodification*, which is currently codified as AT section 701 in AICPA *Professional Standards*.

The Auditing Standards Board (ASB) has not clarified AT section 701 because practitioners rarely perform attest engagements to report on management’s discussion and analysis prepared pursuant to the rules and regulations adopted by the U.S. Securities and Exchange Commission. Therefore, the ASB decided that it would retain AT section 701 in its current unclarified format as AT-C section 395 of AICPA *Professional Standards* until further notice.

* This section contains an “AT-C” identifier, instead of an “AT” identifier, to avoid confusion with references to existing “AT” sections, which remain effective through April 2017, in AICPA *Professional Standards*.

Exhibit

List of AT-C Sections Designated by Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification, Cross Referenced to List of AT Sections in AICPA Professional Standards

Part I—AT-C Section to AT Section Cross References

<u>AT-C Sections Designated by SSAE No. 18¹</u>		<u>AT Sections Superseded by SSAE No. 18</u>	
<u>AT-C Section</u>	<u>Title</u>	<u>AT Section</u>	<u>Title</u>
Preface	<i>Preface to the Attestation Standards</i>	Introduction	<i>Attestation Standards—Introduction</i>
100	Common Concepts		
105	<i>Concepts Common to All Attestation Engagements</i>	20	<i>Defining Professional Requirements in Statements on Standards for Attestation Engagements</i>
		50	<i>SSAE Hierarchy</i>
		101	<i>Attest Engagements</i>
200	Level of Service		
205	<i>Examination Engagements</i>	101	<i>Attest Engagements</i>
210	<i>Review Engagements</i>		

¹ Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*, contains “AT-C” section numbers instead of “AT” section numbers to avoid confusion with references to existing “AT” sections, which remain effective through April 2017 in AICPA *Professional Standards*.

<u><i>AT-C Sections Designated by SSAE No. 18¹</i></u>		<u><i>AT Sections Superseded by SSAE No. 18</i></u>	
215	<i>Agreed-Upon Procedures Engagements</i>	201	<i>Agreed-Upon Procedures Engagements</i>
300	Subject Matter		
305 ²	<i>Prospective Financial Information</i>	301	<i>Financial Forecasts and Projections</i>
310	<i>Reporting on Pro Forma Financial Information</i>	401	<i>Reporting on Pro Forma Financial Information</i>
315	<i>Compliance Attestation</i>	601	<i>Compliance Attestation</i>
320	<i>Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting</i>	801	<i>Reporting on Controls at a Service Organization</i>
395	<i>Management's Discussion and Analysis</i>	701 ³	<i>Management's Discussion and Analysis</i>

² AT-C section 305, *Prospective Financial Information*, does not address compilations of prospective financial information—a service that is included in AT section 301, *Financial Forecasts and Projections*. Paragraph .01 of AR-C section 80, *Compilation Engagements* (AICPA *Professional Standards*), states that AR-C section 80 (which is applicable to compilations of historical financial statements) also may be applied, adapted as necessary in the circumstances, to other historical or prospective financial information. Footnote 1 of AR-C section 80 states that the Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants with respect to compilation engagements on pro forma or prospective financial information.

³ The Auditing Standards Board did not clarify AT section 701, *Management's Discussion and Analysis*, because practitioners rarely perform attestation engagements to report on management's discussion and analysis prepared pursuant to the rules and regulations adopted by the SEC. AT section 701 will be retained in its current unclarified format as AT-C section 395, *Management's Discussion and Analysis*, of AICPA *Professional Standards*, until further notice.

Part II—AT Section to AT-C Section Cross References

<i>AT Sections Superseded by SSAE No. 18</i>		<i>AT-C Sections Designated by SSAE No. 18¹</i>	
<u><i>AT Section</i></u>	<u><i>Title</i></u>	<u><i>AT-C Section</i></u>	<u><i>Title</i></u>
20	<i>Defining Professional Requirements in Statements on Standards for Attestation Engagements</i>	105	<i>Concepts Common to All Attestation Engagements</i>
50	<i>SSAE Hierarchy</i>	105	<i>Concepts Common to All Attestation Engagements</i>
101	<i>Attest Engagements</i>	105	<i>Concepts Common to All Attestation Engagements</i>
		205	<i>Examination Engagements</i>
		210	<i>Review Engagements</i>
201	<i>Agreed-Upon Procedures Engagements</i>	215	<i>Agreed-Upon Procedures Engagements</i>
301	<i>Financial Forecasts and Projections</i>	305 ²	<i>Prospective Financial Information</i>
401	<i>Reporting on Pro Forma Financial Information</i>	310	<i>Reporting on Pro Forma Financial Information</i>
501	<i>An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i>		<i>Statement on Auditing Standards No. 130, An Audit of Internal Control Over Financial Reporting That Is</i>

¹ Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*, contains “AT-C” section numbers instead of “AT” section numbers to avoid confusion with references to existing “AT” sections, which remain effective through April 2017, in *AICPA Professional Standards*.

² AT-C section 305, *Prospective Financial Information*, does not address compilations of prospective financial information—a service that is included in AT section 301, *Financial Forecasts and Projections*. Paragraph .01 of AR-C section 80, *Compilation Engagements* (*AICPA Professional Standards*), states that AR-C section 80 (which is applicable to compilations of historical financial statements) also may be applied, adapted as necessary in the circumstances, to other historical or prospective financial information. Footnote 1 of AR-C section 80 states that the Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants with respect to compilation engagements on pro forma or prospective financial information.

<i>AT Sections Superseded by SSAE No. 18</i>		<i>AT-C Sections Designated by SSAE No. 18¹</i>	
			<i>Integrated With an Audit of Financial Statements, withdraws AT section 501³</i>
601	<i>Compliance Attestation</i>	315	<i>Compliance Attestation</i>
701 ⁴	<i>Management’s Discussion and Analysis</i>	395	<i>Management’s Discussion and Analysis</i>
801	<i>Reporting on Controls at a Service Organization</i>	320	<i>Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting</i>

³ The issuance of Statement on Auditing Standards (SAS) No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (AICPA, *Professional Standards*, AU-C sec. 940), moves the content of AT section 501, *An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, from the SSAEs to the SASs. SAS No. 130 was issued in October 2015 and becomes effective for integrated audits (audits of internal control over financial reporting that are integrated with audits of financial statements) for periods ending on or after December 15, 2016. Upon its effective date, SAS No. 130 withdraws SSAE No. 15, *An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, and related Attestation Interpretation No. 1, “Reporting Under Section 112 of the Federal Deposit Insurance Corporation Improvement Act” (AICPA, *Professional Standards*, AT sec. 501 and 9501).

⁴ The Auditing Standards Board did not clarify AT section 701, *Management’s Discussion and Analysis*, because practitioners rarely perform attestation engagements to report on management’s discussion and analysis prepared pursuant to the rules and regulations adopted by the SEC. AT section 701 will be retained in its current unclarified format as AT-C section 395, *Management’s Discussion and Analysis*, of AICPA *Professional Standards*, until further notice.