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100 What Are They?

100.1 In general terms, a nontraditional engagement is any engagement other than the traditional preparation, compilation, review, or audit of financial statements. Examples of nontraditional engagements include:

- Agreed-upon procedures.
- Audits, reviews, compilations, or preparations of specified elements of a financial statement.
- Audits, reviews, compilations, or preparations of special-purpose presentations.
- Other attestation engagements (such as reports on internal control, compliance, or nonfinancial information).
- Other assurance services (such as eldercare, risk assessment, and performance measurement).

Examples are discussed throughout this *Guide*.

When Do They Occur?

100.2 Most clients and potential clients request typical accounting or audit services. Some, however, have specific needs (for example, a demand by a potential lender, regulatory authority, stockholder, or absentee owner) that cannot be met by the traditional preparation, compilation, review, or audit of financial statements. In those cases, a nontraditional engagement will often provide the best alternative.

100.3 In some cases, nontraditional engagements occur when clients have a specific objective in mind (providing needed information for their use or someone else's), but not a specific type of service. They will often accept any engagement that results in a report on the information requested. Thus, the practitioner can often provide advice as to the most appropriate type of service in the circumstances.

100.4 Other times, a request for a *traditional* engagement may be an opportunity to provide a *nontraditional* engagement that better meets the client's needs. For example, a bank might ask for an audit of the financial statements when it really only needs assurance on the client's receivables and inventory that serve as collateral for a loan. In that case, a report on those specified financial statement elements might be of more benefit to the banker, less costly to the client, and involve less risk for the practitioner (since there is less of an *expectation gap* between what the bank desires and what it is getting). Also, a small-business owner might request an *audit* of the business's internal control when he or she really only wants specific procedures applied. In that case, an agreed-upon procedures engagement may be a better alternative.

What Are Their Advantages?

100.5 The primary advantage of nontraditional engagements is that they give practitioners added flexibility in meeting the needs of their clients. If practitioners are able to meet specific client needs in a cost-effective manner, this reduces the chance that clients may go elsewhere for the service. Nontraditional engagements can also provide opportunities for practitioners to establish relationships with potential new clients, thus opening up new practice development opportunities.

100.6 Another advantage of nontraditional engagements is their potential profitability. Whereas the traditional preparation, compilation, review, or audit of financial statements has come to be viewed, in many cases, as a commodity, nontraditional engagements are often viewed by clients as value-added services. Consequently, they can be more profitable than traditional engagements.

What Are Their Disadvantages?

100.7 The primary disadvantage of nontraditional engagements is a lack of familiarity with them on the part of practitioners and users. Financial statement compilations, reviews, and audits are generally more structured engagements. They require certain standard procedures and result in standard reports. Although they provide less opportunity to customize the engagement or report for the needs of the user, they may be more widely understood services, and practitioners may have more experience in providing them. Thus, there may be a higher comfort level in compiling, reviewing, or auditing financial statements than in providing other services.

How Does This *Guide* Help?

100.8 Many CPA firms experience frustration when faced with obtaining a new nontraditional engagement. Although they relish the idea of expanding their practice, they are often unsure how to fulfill the client's request. They are faced with the question “What should we do now?”

100.9 This *Guide* is intended to answer that question. Its purpose is to assist practitioners when they are faced with something other than the traditional preparation, compilation, review, or audit of financial statements. In most cases, a client's request for a nontraditional engagement can be met, but the practitioner is faced with trying to identify the alternative services that can be provided and the standards that apply. This *Guide* provides guidance for choosing among those alternatives while complying with professional standards. It also provides practice aids to help the practitioner actually deliver the service.

How to Use This *Guide*

100.10 When using this *Guide* to identify the best engagement for a particular client situation, the authors recommend the following approach:

a. Read the summary of each chapter in section 101 to make a preliminary assessment of what type of engagement best meets your client's needs.

b. As necessary, review the summary of professional literature in section 102 to assist you in determining what type of engagement best meets your client's needs.

c. Read through the chapter for the type of engagement selected to become familiar with the relevant professional literature and related practice issues.

d. Review the applicable practice aids for the type of engagement selected. (In those chapters where one is provided, the applicable “Procedures Checklist” walks you through the engagement steps and provides a good roadmap for determining which practice aids and report examples should be used.)

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101 Overview of This *Guide*

101.1 This section provides a brief description of the engagements covered in each chapter. Its purpose is to provide you with an overview of the *Guide* to assist you in identifying the type of engagement that best meets your client's needs.

Agreed-upon Procedures

101.2 Chapter 2 provides guidance and practice aids for agreed-upon procedures engagements. It covers the guidance in SSAE No. 10 (AT 201, *Agreed-Upon Procedures Engagements*), as amended, for applying agreed-upon procedures to financial and non-financial information. [1] [2] An agreed-upon procedures engagement is one in which a practitioner is engaged by a client to perform specific procedures and report findings. The practitioner does not perform an audit or provide an opinion relating to the subject matter or assertion about the subject matter. Rather, the practitioner performs only those procedures that have been agreed to and reports findings.

101.3 The service is very responsive to the user's needs, since the practitioner does whatever procedures the user calls for. It is less expensive than standardized services because the practitioner is not required to apply procedures other than those requested. The practitioner's report provides no overall assurance—it only reports the findings resulting from the specified procedures. Accordingly, these engagements can reduce litigation risk, since the practitioner generally makes no judgments as to the scope of work or the appropriateness of the presentation. The value of an agreed-upon procedures engagement is that it enhances the credibility of the information to which the procedures are applied. But the client (or other users) is responsible for the adequacy of the procedures, not the practitioner.

Performance Measurement Services

101.4 Businesses have historically measured performance based on financial results. Since profit is the lifeblood of any business, financial measures are critical. However, many business managers now believe that long-term profitability is better achieved by focusing on a balanced set of financial and nonfinancial measures. Performance measurement is basically a process of considering whether a client's performance measures are consistent with its overall business strategy.

101.5 Performance measurement services essentially involve the practitioner working with the client to:

- Define the organization's strategy.
- Develop performance measures.
- Implement a performance measurement system.
- Monitor the results of the performance measurement system.

Chapter 3 provides detailed guidance on providing performance measurement services, including certain practice aids.

Specified Financial Statement Elements

101.6 Chapter 5 provides guidance when reporting on any specified element. Reporting on specified elements can consist of an audit, review, compilation, preparation, agreed-upon procedures, or engagements to report on specified elements as supplementary information, and the relevant literature is as follows:

• Audit—AU-C 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, AU-C 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, and AU-C 720, *Other Information in Documents Containing Audited Financial Statements*.

• Review—SSAE No. 10 (AT 101, *Attest Engagements*), as amended, and SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AR-C 90, *Review of Financial Statements*).

• Compilation—SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AR-C 80, *Compilation Engagements*). [3]

• Preparation of Financial Statements—SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AR-C 70, *Preparation of Financial Statements*).

• Agreed-upon Procedures—SSAE No. 10 (AT 201, *Agreed-Upon Procedures Engagements*), as amended.

101.7 Examples of financial statement elements to which the guidance in Chapter 5 might be applied include:

• A schedule of accounts receivable.

• A schedule of cash balances.

• A summary of PP&E.

• A statement of construction costs.

• A schedule of profit-sharing plan contributions.

• A schedule of sales.

The final item in this list is a specified elements engagement that relates to reporting in connection with a lease agreement. This particular type of engagement focuses on one of the more common reporting situations involving a lease agreement—reporting sales to a landlord for purposes of determining percentage rent. Those engagements generally involve a schedule of sales, which is a specified financial statement element. Section 506 discusses those engagements.

101.8 Chapter 5 also provides comprehensive guidance and practice aids for audit, review, and compilation engagements on specified elements. Preparation services are not discussed in this *Guide*. (See *PPC's Guide to SSARS Preparation Engagements*.)

Contracts

101.9 Chapter 6 provides guidance for engagements related to a contractual agreement (such as a loan agreement, partnership agreement, profit sharing agreement, or licensing agreement). These engagements consist of such things as:

• Reporting, *in conjunction with an audit of the financial statements*, on the client's compliance with a contract (such as compliance with loan covenants).

- Reporting on special-purpose presentations prepared in accordance with a contract.

Compliance

101.10 Chapter 7 covers engagements to report on compliance with laws, regulations, or contractual agreements. Generally, this chapter should be referred to anytime a practitioner is asked to provide services that relate to compliance, with the following exceptions:

- When reporting, *in conjunction with an audit of the financial statements*, on the client's compliance with a contract, see Chapter 6.

- When reporting on special-purpose presentations prepared in accordance with a contractual agreement, see Chapter 6.

- When reporting on compliance with laws and regulations in Yellow Book audits, *PPC's Guide to Single Audits* should be used. These engagements are beyond the scope of this *Guide*.

101.11 SSAE No. 10 (AT 601, *Compliance Attestation*) specifies the types of compliance-related services that practitioners can and cannot provide. Consequently, Chapter 7 focuses primarily on engagements subject to AT 601, which are:

- Examining compliance with specific requirements (for example, with laws, regulations, or contractual agreements).

- Applying agreed-upon procedures regarding compliance with specific requirements.

- Applying agreed-upon procedures regarding the effectiveness of its internal control over compliance with specific requirements.

101.12 AT 601 prohibits review engagements. It also prohibits any other form of negative assurance regarding compliance (other than when provided in conjunction with an audit of the financial statements, which is discussed in Chapter 6).

Pro Forma Information

101.13 Chapter 8 is for engagements to report on pro forma information. Pro forma presentations are essentially recast historical financial statements. Their purpose is to show what the effects on historical information might have been had a transaction or event occurred at an earlier date. Engagements covered in this chapter include:

- Examining, reviewing, or compiling pro forma information. [4]

- Reporting when pro forma information is treated as one of the assumptions for a prospective presentation.

- Assembling pro forma information.

- Reporting on financial statements that disclose certain pro forma information required by GAAP.

Attestation Engagements

101.14 Attestation engagements are those engagements covered by Statements on Standards for Attestation Engagements. [5] They include examination, review, and agreed-upon procedures engagements. Chapter 9 covers examination and review engagements, and agreed-upon procedures are covered in Chapter 2.

101.15 Attestation engagements occur whenever a practitioner is engaged to issue or does issue an examination, review, or agreed-upon procedures report on subject matter (or an assertion about the subject matter) that is the responsibility of another party. Attestation

engagements provide the practitioner with flexibility in meeting a client's needs, primarily because the service can be applied to matters more varied than financial statements. Examples of matters that practitioners have provided attestation reports on include computer software, enrollment statistics, political contributions, the oxygen content of gasoline, and whether golfers hit Wilson Ultra golf balls farther than competitors' golf balls.

101.16 Specific types of examination and review engagements are covered in other chapters. Chapter 5 discusses reviewing specified elements under the attestation standards, Chapter 7 discusses examinations regarding compliance, Chapter 8 covers examinations and reviews of pro forma financial information, and Chapter 10 covers examinations related to a client's internal control over financial reporting. For any other examination or review engagement, however, the guidance and practice aids in Chapter 9 should be used.

Internal Control

101.17 Chapter 10 is designed to provide assistance when reporting on internal control. The chapter focuses largely on integrated engagements to examine a client's internal controls (that is, to examine the effectiveness of its internal control over financial reporting) in conjunction with an audit of the entity's financial statements. Such engagements for nonpublic companies should be performed under SSAE No. 15 (AT 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*) for periods ending before December 15, 2016.[6] The chapter provides extensive guidance and a complete set of practice aids for those examinations.

101.18 Other internal control engagements discussed in Chapter 10 include:

- Examinations on the design of internal controls.
- Reports issued in conjunction with financial statement audits (that is, communication of significant deficiencies and material weaknesses, management letters, etc.).
- Providing internal audit services.
- Reports on the internal controls of a service organization (SSAE No. 16 engagements).
- Stand-alone examinations of internal control effectiveness performed under AT 101.

101.19 When reporting on internal controls issued in conjunction with a Yellow Book engagement, *PPC's Guide to Single Audits* should be used. These engagements are beyond the scope of this *Guide*.

COSO

101.20 Chapter 11 provides an introduction to, and an overview of, the COSO Framework (that is, the report titled *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission). The COSO Framework provides the criteria that will most often be used to perform the internal control examinations covered in Chapter 10. COSO is the most widely used internal control framework in the U.S.

Ownership Changes

101.21 Chapter 12 covers engagements that arise when a practitioner is involved with the acquisition of one company by another. The specific type of engagement covered is acquisition assistance engagements.

101.22 **Acquisition Assistance Engagements** Acquisition assistance is a term used to describe engagements in which a practitioner is asked to assist a client in *looking over* a prospective target. Other terms used for such services include *due diligence assistance*, *businessman's reviews*, *acquisition reviews*, and *acquisition analyses*. In these engagements, the practitioner simply applies general business and financial knowledge in looking over selected information and attempting to identify any critical areas that the client should be aware of.

101.23 Acquisition assistance engagements are often considered the domain of large firms whose clients are involved in large, complex acquisitions or mergers. However, local and regional firms, as well as sole practitioners, are sometimes requested to provide such services in their roles as business advisors to their clients. This chapter provides guidance and a complete set of practice aids for performing these engagements as consulting engagements. Some firms prefer to structure them as agreed-upon procedures engagements, in which case the

guidance in Chapter 2 should be used instead.

101.24 The guidance in this chapter on acquisition assistance engagements is directed to situations in which a client is considering an acquisition or merger. However, it is applicable to any situation in which a client, with the cooperation of the target company, wishes to gain more information about the target (for example, a potential coparticipant in a proposed joint venture). The guidance is also applicable to situations in which a target company wishes to gain more information about its potential acquirer, or when a lender providing debt financing seeks to gain more information about a potential borrower.

Other Nontraditional Engagements

101.25 Chapter 13 provides an overview and discussion of the rules relating to various other engagements, including the following:

- Reports on the application of accounting principles.
- Services performed for financial institutions.
- Litigation support services.
- Fraud audits.
- Services performed for trusts and estates.
- Ballot-counting services.
- Trust Services (previously WebTrust and SysTrust services).
- Other requests in connection with an audit.
- Outsourced internal audit and controllership services.
- Attestation engagements performed under the Yellow Book.
- Engagements related to XBRL-formatted information.
- Other specialized attestation engagements.

101.26 Consulting engagements, as well as examinations, compilations, or assemblies of prospective information, could also be considered nontraditional engagements. However, these engagements are not covered in detail in this *Guide*. They are covered extensively in *PPC's Guide to Small Business Consulting Engagements* and *PPC's Guide to Forecasts and Projections*.

Eldercare Services

101.27 Because of their familiarity with a client's financial and personal affairs, CPAs are sometimes in a unique position to advise clients in matters relating to the care of older relatives and to help them administer their affairs. Services a practitioner might provide in this capacity include:

• Coordinating and overseeing periodic or full-time health care, including assistance in selecting care providers and establishing a system to monitor the quality of care provided.

• Handling routine financial transactions, including paying bills and ensuring that expected revenues are received and deposited.

• Arranging for transportation, yard maintenance, and other personal services.

• Determining whether investments are being managed per the elderly person's instructions.

• Making recommendations for funding health care expenses.

• Ensuring that all health care and retirement benefits are being received.

• Preparing payroll tax returns for in-home care providers.

• Ensuring that legal documents such as powers of attorney and living wills are in place.

• Reporting to family members about the quality of care being provided (based on criteria they establish) and other matters.

101.28 Other services practitioners could offer are limited only by their imagination and expertise. Chapter 14 provides an introduction to eldercare services and a discussion of the various services practitioners might provide as well as certain practice aids that can be used on such engagements.

Risk Assessment Services

101.29 Chapter 15 provides guidance for helping a client identify and manage business risk. Business risk is the risk that an action or event will adversely affect an organization's ability to successfully achieve its objectives and execute its strategies. In order to be successful, a business must be able to effectively monitor and control its business risks.

101.30 Assessing and controlling business risks has become increasingly important in recent years due to changes in information technology and other developments. Because of their experience in assessing financial statement risk and designing internal control, and because of their knowledge of business practices, CPAs can provide valuable assistance to clients by helping them to identify and monitor risks.

101.31 Services that a CPA might perform related to risk assessment include the following:

• Helping a client identify and assess its business risks.

• Assessing risks that have been identified by a client.

• Evaluating a client's system for monitoring and controlling risks.

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[1] Practitioners should refer to *PPC's Guide to Forecasts and Projections* for guidance on performing agreed-upon procedures engagements to prospective financial information.

[2] The Auditing Standards Board is continuing to work on its project to clarify the attestation standards. See the discussion (including the exposure drafts that have been issued) beginning at paragraph 102.48.

[3] Although SSARS No. 21 applies to compilations of financial statements, AR-C 80.A1 indicates it may be applied to elements, accounts, or items of a financial statement. SSARS No. 21 supersedes AR 110 and is effective for periods ending on or after December 15, 2015, with early implementation permitted.

[4] SSARS No. 21, issued in October 2014, supersedes substantially all current compilation and review guidance; however, it does not supersede SSARS No. 14 (AR 120), *Compilation of Pro Forma Financial Information*. Instead, the Accounting and Review Services Committee is still working on a project to clarify the standard on compilations of pro forma financial information. The authors believe that an exposure draft of proposed guidance to supersede AR 120 might be available by the end of 2015. See the discussion on current developments in standard setting for compilation and review engagements beginning at paragraph 102.41.

[5] The Auditing Standards Board continues to work on its project to clarify the attestation standards. See the discussion (including exposure drafts issued) beginning at paragraph 102.48.

[6] As part of its comprehensive project to clarify and revise the attestation standards, in October 2015, the Auditing Standards Board issued Statement on Standards for Auditing Services (SAS) No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*. That standard supersedes AT 501 for integrated audits for periods ending on or after December 15, 2016. See the discussion on the attestation clarity project beginning at paragraph 102.48 and the discussion on the new integrated audits SAS beginning at paragraph 1001.4.

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102 Overview of the Applicable Standards

102.1 Virtually all services a practitioner provides are subject to professional standards. With the proliferation of both services and standards, however, it is sometimes difficult to identify the right service and the standard that governs it. In general, the standards include:

- AICPA *Code of Professional Conduct*.
- Statements on Auditing Standards (SASs).
- Statements on Standards for Accounting and Review Services (SSARSs).
- Statements on Standards for Attestation Engagements (SSAEs).
- Statements on Standards for Consulting Services (SSCSs).
- Statement on Standards for Valuation Services (SSVS).
- Statement on Quality Control Standards (SQCS).

This section provides an overview of the various standards. Paragraphs beginning at 102.68 discuss current developments in standard setting for nonpublic entity engagements, [7] including recently issued AICPA standards.

Code of Professional Conduct

102.2 **When It Applies** The *Code of Professional Conduct(Code)*, applies to all professional services the practitioner provides. The *Code* also applies to other people in the practitioner's firm. Thus, a practitioner cannot avoid the rules by having an uncertified member of the firm perform acts the practitioner would be barred from performing. Until 2013, nine of the 11 rules applied only when the member “held out” as a CPA. Revisions that year changed the definitions of *practice of public accounting* (now *public practice*) and *professional services* to remove the requirement that a member *hold out* as a CPA.

102.3 While the *Code* explicitly applies to members of the AIPCA, the vast majority of state boards of accountancy have also adopted the AICPA's *Code* or have created their own. When specific types of standards have been established to address specific types of services, the practitioner should also refer to those standards, but the *Code* still applies. No specific standards conflict with the *Code*, but they generally are more restrictive and call for specific types of procedures or reports.

102.4 **Independence Considerations** Many of the engagements discussed in this *Guide*, such as audits of specified elements, examinations, reviews, and agreed-upon procedures require independence. Compilations also require consideration of independence because the practitioner has to disclose in the report if he or she is not independent. The primary rules governing independence are found in the AICPA *Code of Professional Conduct* (the *Code*) (see the discussion of the *Code* beginning at paragraph 102.2). *PPC's Guide Quality Control* provides detailed

guidance on independence issues as well as checklists and other practice aids to ensure your firm is in compliance with independence requirements.

102.5 **Conceptual Framework for Independence** ET 1.210.010, *Conceptual Framework for Independence*, is to be used by practitioners when making decisions on independence matters that are not explicitly addressed by the AICPA *Code of Professional Conduct*. The Conceptual Framework describes the risk-based approach to analyzing independence matters that is used by the PEEC when it develops standards. Under that approach, the practitioner's relationship with a client is evaluated to determine whether it poses an unacceptable risk to the practitioner's independence. Risk is unacceptable if the relationship would compromise (or would be perceived as compromising by an informed third party having knowledge of all relevant information—the *Code* refers to a “reasonable and informed third party who is aware of all the relevant information”) the practitioner's professional judgment when rendering an attest service to the client. Under the risk-based approach, steps are taken to prevent circumstances that threaten independence from compromising the professional judgments required in the performance of an attest engagement.

102.6 The risk-based approach involves the following steps:

- Identifying and evaluating threats to independence. If identified threats are not considered to be at an acceptable level, safeguards should be considered.

- Determining whether safeguards already eliminate or sufficiently mitigate identified threats and whether threats that have not yet been mitigated can be eliminated or sufficiently mitigated by safeguards. A threat has been sufficiently mitigated by safeguards if, after application of the safeguards, it is not reasonable to expect that the threat would compromise professional judgment.

- If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired.

102.7 The Conceptual Framework also provides examples of threats to independence and of safeguards that may eliminate threats or reduce them to acceptable levels. Threats to independence are circumstances that could impair independence. Some examples of threats discussed in the framework include the self-review threat, the advocacy threat, the adverse interest threat, the familiarity threat, the undue influence threat, the financial self-interest threat (the *Code* refers to a self-interest threat “financially or otherwise”), and the management participation threat. *Safeguards* are controls that mitigate or eliminate threats to independence. To be effective, safeguards must eliminate the threat or reduce to an acceptable level the threat's potential to impair independence. The three broad categories of safeguards discussed in the framework are (ET 1.200.010.20 of the *Code*):

- Safeguards created by the profession, legislation, or regulation.

- Safeguards implemented by the attest client.

- Safeguards implemented by the firm.

102.8 In instances where threats to independence are not at an acceptable level, safeguards should be applied and the following should be documented:

- The threats identified.

- The safeguards applied to eliminate the threats or reduce them to an acceptable level.

102.9 In situations where there are no independence interpretations or rulings that address an accountant's particular independence circumstance, ET 1.210.010.01 of the AICPA *Code* requires the accountant to evaluate whether his or her particular independence situation would lead a reasonable person who is aware of all of the facts to conclude that the accountant is not independent. When making that determination, accountants must refer to the risk-based approach described in the Conceptual Framework for AICPA Independence Standards.

102.10 **Independence and Nonattest Services** ET 1.200.001 of the AICPA *Code* requires independence for members in public practice. The

authors recommend that practitioners read the independence rules and related guidance for a thorough understanding concerning independence. *PPC's Guide to GAAS* provides a comprehensive discussion of the AICPA's independence rules and related guidance.

102.11 For many nontraditional engagements, a frequent concern about meeting independence requirements is the effect of providing nonattest and attest services to the client. For many attest clients, the practitioner serves as a primary business consultant and may also provide consulting, tax, or other services to them.

102.12 **ET 1.295** ET 1.295 of the AICPA *Code* states that the following requirements must be met to remain independent (with respect to attest services) when performing nonattest services for an attest client: [8]

• *The Member* [9] *Should Not Assume Management Responsibilities.* Independence is considered to be impaired if a practitioner (or his or her firm) assumes management responsibilities. For example, determining which recommendations of the member should be implemented or reporting to the board of directors on behalf of management would impair independence. However, the practitioner may assist management in those responsibilities. The independence guidance exempts from its scope certain routine activities, such as providing advice and responding to the client's technical questions as part of the normal client-practitioner relationship.

Certain activities performed as part of a nonattest service are considered to be management responsibilities and, therefore, impair independence regardless of whether the auditor complies with the other requirements of ET 1.295. In addition, if an accountant assumes a management responsibility for an attest client, the management participation threat created would be so significant that no safeguards could reduce the threat to an acceptable level. The guidance specifically states that performance of the following activities would be considered a management responsibility and, therefore, would impair an auditor's independence (that is, they would preclude the auditor from being independent):

•• Setting policies or strategic direction for the client.

•• Directing or accepting responsibility for the actions of the client's employees, except to the extent permitted when using internal auditors.

•• Exercising authority on behalf of a client, including authorizing, executing, or consummating a transaction, or having the authority to do so.

•• Preparing source documents, in electronic or other form, that evidence the occurrence of a transaction.

•• Having custody of client assets.

•• Deciding which of the auditor's or other third parties' recommendations should be implemented or prioritized.

•• Reporting to those in charge of governance on behalf of management.

•• Serving as a client's stock transfer or escrow agent, registrar, or general counsel.

•• Accepting responsibility for the management of a client's project.

•• Accepting responsibility for the preparation and fair presentation of the client's financial statements in accordance with the applicable financial reporting framework.

•• Accepting responsibility for designing, implementing, or maintaining internal controls.

•• Performing ongoing evaluations of the client's internal control as part of its monitoring activities.

The *Code* also addresses other services, including bookkeeping, payroll, and other disbursements; benefit plan administration; investment advisory or management services; corporate finance consulting or advisory services; executive or employee search; business risk consulting; and certain information systems services. For each of those services, the guidance first examines characteristics (or examples) of the service that would not impair independence and then looks at characteristics that would impair independence. The guidance also addresses appraisal, valuation, and actuarial services; internal audit assistance services; and how the characteristics of those services affect the practitioner's independence.

• *The Client Agrees to Perform Certain Functions.* The practitioner should be sure that the client is in a position to make an informed judgment on the results of the nonattest services and that the client understands its responsibilities to do the following:

a. Assume all management responsibilities.

b. Oversee the service by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience.

c. Evaluate the adequacy and results of the services performed.

d. Accept responsibility for the results of the services.

In cases where the client is unable or unwilling to assume all of these responsibilities, or is unwilling to carry out such responsibilities, the practitioner's performance of the nonattest services would impair independence.

• *The Member Should Assess the Suitable Skill, Knowledge, and Experience of the Individual Designated by Management to Oversee the Nonattest Services.* When assessing whether a client's designated employee possesses suitable skill, knowledge, or experience, it is not intended that the client's employee possess a level of technical expertise equal to the practitioner's. The client's employee need only understand the nonattest services enough to be able to provide general direction for the services; understand the key issues the practitioner identifies; make any required management decisions; and evaluate the adequacy of, and accept responsibility for, the results of the practitioner's work. This may mean the practitioner will need to educate the client in order to allow him or her to assume these responsibilities. For example, if the practitioner performs routine bookkeeping services for an attest client, he or she could ensure compliance with the requirements of the Interpretation by reviewing the proposed journal entries with the client and explaining in general terms how each entry affects the financial statements. The client should then be in a position to approve the journal entries and accept responsibility for the financial statements.

• *The Member Should Evaluate the Effect of Performing Multiple Nonattest Services.* Although performing an individual nonattest service might not impair independence, the cumulative effect of multiple nonattest services can increase the significance of threats to independence. As discussed in ET 1.295.020, before agreeing to perform the services, the member should evaluate whether the aggregate effect of performing multiple nonattest services results in a significant threat to independence that cannot be reduced to an acceptable level by the application of safeguards. If there are no safeguards that eliminate the threat or reduce it to an acceptable level, the member's independence would be impaired. It is not necessary to consider threats that might be created when other network firms within the member's firm's network provide nonattest services.

102.13 In addition, ET 1.295.040.01 states that the understanding between the member and the client should be documented in writing. To help prevent any type of misunderstanding with the client, before performing the nonattest services for an attest client, the practitioner should document in writing his or her understanding with the client regarding the following:

a. Objectives of the engagement (i.e., the nonattest services).

b. Services to be performed.

c. Client's acceptance of its responsibilities.

d. Practitioner's responsibilities.

e. Any limitations of the engagement.

Although failure to obtain the required understanding would impair independence, failure to comply with the requirement to document that understanding would not impair independence. Instead, such failure would be a violation of ET 1.310.001 of the *Code*. [10]

102.14 The *Code* does not specify how the written understanding is to be documented, so the practitioner has flexibility. For example, the understanding might be documented in a separate engagement letter, the workpapers, an internal memo, or the engagement letter obtained in conjunction with an attest engagement. Appendix 9A-7, "Engagement Independence Compliance and Nonattest Services Documentation Form," can be used to comply with the requirements of ET 1.295, including the additional requirements to assess the suitable skill, knowledge, and experience (SKE) of the individual designated by management to oversee the nonattest services and the evaluation of multiple nonattest services. The requirement to establish and document the understanding with the client, as previously discussed, can be documented in the engagement letter or in Appendix 9A-7. (If the engagement letter incorporates the understanding requirements of ET 1.295, make reference to the letter at the applicable steps in Appendix 9A-7.)

102.15 The documentation requirement does not apply to nonattest services performed prior to the client becoming an attest client. The member would be permitted to prepare the required documentation upon acceptance of an attest engagement, provided the member is able to demonstrate his or her compliance with the other general requirements during the period covered by the subject matter, including the requirement to establish an understanding with the client. The practitioner's independence would not be impaired when the practitioner performed nonattest services that would have impaired independence during the period covered by the financial statements, provided that the nonattest services were provided prior to accepting the attest engagement, the nonattest services were for a period prior to the financial statement period, and the financial statements for the period to which the nonattest services relate were reviewed or audited by another firm. As a practical matter, practitioners who are initially engaged to only provide nonattest services but expect to subsequently be engaged to also provide attest services should consider structuring the engagement so that performance of the nonattest services will not impair independence for the attest services.

102.16 Tax Compliance Services.. ET 1.295 of the *Code* also addresses tax compliance services. Preparing a tax return [11] and transmitting the tax return and related payment, either electronically or in paper form, to a taxing authority does not impair independence as long as the practitioner does not have custody or control [12] of the client's funds and the individual overseeing the tax services (a) reviews and approves the return and payment and (b) signs the return prior to transmittal, if required for the filing. Signing and filing a tax return on behalf of client management impairs independence unless the practitioner has legal authority to do so and—

• The taxing authority has prescribed procedures, allowing the taxpayer to permit the practitioner to sign and file a return on the taxpayer's behalf, that meet the standards for electronic return originators and officers outlined in IRS Form 8879; or

• An individual in client management who is authorized to sign and file the tax return provides the practitioner with a signed statement that indicates—

•• The return being filed.

•• That the individual is authorized to sign and file the return.

•• That the individual has reviewed the return, including accompanying schedules, and it is true, correct, and complete to the best of their knowledge and belief.

•• That the individual authorizes the practitioner (or another named member in the practitioner's firm) to sign and file the return on behalf of the client.

102.17 The guidance also indicates that the practitioner's representation of the client in an administrative proceeding before a taxing authority does not impair independence, providing that practitioner obtains the client's agreement prior to committing the client to a specific resolution with the taxing authority. Independence is impaired if the practitioner represents the client in court [13] to resolve a tax dispute.

102.18 Appraisal, Valuation, or Actuarial Services.. In addition, under ET 1.295 of the *Code*, certain appraisal, valuation, or actuarial services are considered to impair independence. Performing appraisal, valuation, or actuarial services impairs independence if the results are material to the financial statements and the service involves significant subjectivity. For example, a material asset appraisal or business valuation generally involves significant subjectivity and, therefore, would impair independence if performed for financial statement purposes. However, an actuarial valuation of a client's pension liabilities ordinarily does not require significant subjectivity and, therefore, would not impair independence even if the amount was material.

102.19 Forensic Accounting Services.. Under ET 1.295, certain types of forensic accounting services may impair independence. Independence is impaired if an accountant conditionally or unconditionally agrees to provide expert witness testimony for a client. However, under certain defined conditions, independence is not impaired if the accountant provides expert witness testimony for a large group of plaintiffs or defendants that includes the accountant's client. If the accountant provides litigation services where he or she is a trier of fact, special master, court-appointed expert, or arbitrator in a matter involving a client, independence is impaired. The guidance on forensic accounting services is discussed in more detail beginning at paragraph 1303.11.

102.20 Internal Audit Services.. In some cases, the practitioner may assist with the client's internal audit function. ET 1.295 of the *Code* also addresses the impact of those services on the practitioner's independence. According to the guidance, performance of internal audit assistance services does not impair the practitioner's independence as long as the practitioner is not an employee of the client or does not act in the capacity of management (for example, determining the scope, risk, and frequency of internal audit activities). The practitioner should be satisfied that the client understands its responsibility for directing the internal audit function. The general requirements of the Interpretation discussed previously also must be met. With respect to providing assistance with the internal audit function, the practitioner should be satisfied that the board of directors, audit committee, or other governing body is fully informed of the engagement.

102.21 In addition, when a member performs internal audit services that do not impair independence and is subsequently engaged to perform an attestation engagement to report on management's assertion regarding the effectiveness of its internal control. In that case, independence would not be considered impaired if the member is satisfied that client management does not rely on the member's work as the primary basis for its assertion. See further discussion of internal audit services and the related provisions of ET 1.295 in section 1310.

102.22 The guidance also addresses internal audit outsourcing services. It states that the member should “take appropriate steps to be satisfied that the client *accepts* its responsibility for *designing, implementing, and maintaining internal control* and directing the internal audit function, including the management thereof.” In addition, the guidance clarifies and expands the requirements surrounding internal audit assistance services, including monitoring activities performed to assess whether components of internal control are present and functioning. The guidance further distinguishes between monitoring activities that are ongoing evaluations or separate evaluations. Because ongoing evaluations are generally integrated into the client's business process and performed on a real-time basis, the activity creates a management participation threat that is so significant that no safeguards could reduce the threat to an acceptable level. Separate evaluations are generally conducted periodically and not part of the ongoing business process. As a result, separate evaluations do not typically create a significant management participation threat to independence. See further discussion of internal audit services and the related provisions of ET 1.295 in section 1310.

102.23 Independence Standards of Other Authoritative Bodies.. Finally, ET 1.295 of the *Code* incorporates by reference the independence requirements of other authoritative bodies. It states that failure to meet more restrictive independence requirements of any regulatory bodies (such as the SEC, GAO, DOL, PCAOB, and state boards of accountancy) relevant to the engagement constitutes a violation of the interpretation.

102.24 The practitioner should consider the requirements of ET 1.295 when performing nontraditional engagements. A nontraditional

engagement can be structured as an attest engagement, a nonattest engagement, or a combination of both. For example, as discussed in paragraph 1201.5, a buyer acquisition engagement can be structured as an agreed-upon procedures engagement (an attest service) or a consulting engagement (a nonattest service). Paragraphs beginning at paragraph 202.13 discuss a dual engagement that involves both consulting and attest services.

102.25 In certain circumstances, practitioners may not be sure whether the performance of certain services are nonattest services that would fall under the requirements of ET 1.295. Nothing precludes the practitioner from following the requirements in ET 1.295 when in doubt. Practice aids in this *Guide* have been updated to show how a practitioner can apply the guidance in a cost-effective manner to avoid impairing independence when providing nonattest services to attest clients.

102.26 **Modified Application of the Independence Rule in SSAE Engagements** ET 1.200.001 of the *Code* applies to all attest engagements. However, ET 1.297.010 and ET 1.297.030 address modified application of the independence requirements when performing engagements to issue reports under the SSAEs, other than agreed-upon procedures engagements. For further discussion of ET 1.297 as it relates to agreed-up procedures engagements (ET 1.297.020), see paragraph 203.20 and paragraph 701.16. For discussion related to attestation examinations, see paragraph 903.26.

102.27 **Informing Clients of Outsourcing Arrangements** ET 1.150.040 of the *Code* requires that clients be informed, preferably in writing, if the practitioner's firm will outsource professional services to third-party service providers. If the practitioner intends to use third-party service providers (that is, entities not controlled or individuals not employed by the firm), the client must be informed before confidential client information [14] is shared with the service provider. Also, ET 1.700.040 states that, if the accounting firm does not enter into a contractual agreement with the third-party service provider requiring the third party to (a) maintain the confidentiality of the client's information and (b) have procedures in place to prevent unauthorized release of confidential information, the accounting firm must obtain the client's consent to disclose the client's confidential information to the third-party service provider. Examples of the use of such services might be use of a specialist, having a third party observe inventory, using contract employees, or having another firm audit a specified element as part of an audit engagement. The client is not required to be informed when a third party is used only for administrative support services, such as record storage or software application hosting.

102.28 In cases where the practitioner chooses to provide written disclosure that a third-party service provider will be used, the following paragraph may be included in the engagement letter:

> We may, from time to time and depending on the circumstances, use third-party service providers in serving your account. We may share your confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information, and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

Statements on Auditing Standards (SASs)

102.29 **When They Apply** SASs apply to audits of financial statements for nonpublic entities. In addition, certain specific SASs apply to the following other situations:

- Filings under federal securities statutes.

- Summary financial statements.

- Reports on the application of accounting principles.

- Reports on compliance with aspects of contractual agreements or regulatory requirements in conjunction with an audit of the financial statements.

- Audits of single financial statements of specific elements, accounts, or items of a financial statement.

- Letters for underwriters.

- Compliance auditing for recipients of government funds.

102.30 The practitioner is required to follow the procedure and reporting guidance in SASs whenever they apply. The requirement comes from two sources:

- The *Compliance with Standards Rule* of the *Code of Professional Conduct* requires adherence to them.

- Many state accountancy laws define the provisions of the SASs as GAAS, and require adherence to them as well.

102.31 **Form and Content** SASs are issued by the AICPA Auditing Standards Board (ASB), which oversees the standard-setting process for audits of nonpublic entities. The standards are generally exposed for a period of 90 days after issuance of an exposure draft. The exposure time varies depending upon the complexity of the proposed standard and the circumstances surrounding the need for it. When they are issued, the standards are published in the *Journal of Accountancy*. Free-standing copies of the new standard can also be purchased from the AICPA. Each new standard carries an effective date, which varies based on the ASB's assessment of the lead time practitioners require to implement the standard. The standards are codified in the AU-C section of *Professional Standards*. There were 130 SASs included in the AICPA's *Codification of Auditing Standards* as of the date of this *Guide*.

102.32 In October 2011, the AICPA substantially completed its comprehensive project to revise and reformat all existing auditing standards and to design a format under which all new standards would be issued. At that time, the ASB issued a new Statement on Auditing Standards, SAS No. 122, which has been referred to as the “Super SAS,” that superseded all but eight previously issued SASs. (The remaining SASs were addressed in subsequent guidance.) Specifically, SAS No. 122 contains the Preface to the Codification on Auditing Standards and 39 clarified standards. It became effective for audits of financial statements for periods ending on or after December 15, 2012. Following is a list of current SASs:

- SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*

- SAS No. 123, *Omnibus Statement on Auditing Standards—2011*

- SAS No. 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

- SAS No. 125, *Alert That Restricts the Use of the Auditor's Written Communication*

- SAS No. 126, *The Auditor's Consideration of An Entity's Ability to Continue as a Going Concern (Redrafted)*

- SAS No. 127, *Omnibus Statement on Auditing Standards—2013*

- SAS No. 128, *Using the Work of Internal Auditors* (codified as AU-C 610 and discussed beginning at paragraphs 501.26 and 1001.31)

- SAS No. 129, *Amendment to Statement on Auditing Standards No. 122 Section 920, Letters for Underwriters and Certain Other Requesting Parties, as Amended*

• SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (effective for integrated audits for periods ending on or after December 15, 2016, and discussed at paragraphs 102.35 and 1001.4)

102.33 The auditing standards division also issues auditing interpretations. These pronouncements explain sections of standards that are ambiguous or the standards' application in situations not envisioned when they were originally issued. They are not enforceable under the *Code*, but practitioners should be prepared to justify departing from them if their work is challenged. Interpretations are not exposed before issuance. The auditing interpretations are codified in the auditing standard section of *Professional Standards* immediately following the standards they interpret.

102.34 **Current Developments in Standard Setting for Audits of Nonpublic Entities** Since the date of the last edition of this *Guide*, one SAS has been issued.

102.35 SAS No. 130. SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, will replace AT 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, moving the guidance into the auditing standards. SAS No. 130 is intended to conform as closely as practicable to PCAOB Auditing Standard No. 5 while aligning with GAAS. SAS No. 130 also makes necessary conforming changes in other guidance in order to integrate it into GAAS. The interpretation in AT 501 has been integrated into exhibit D of the SAS. The new standard is effective for integrated audits for periods ending on or after December 15, 2016. Early implementation is permitted. The standard is discussed at paragraph 1001.4.

Statements on Standards for Accounting and Review Services (SSARSs)

102.36 **When They Apply** The SSARS establish the three services practitioners can apply to unaudited financial statements or financial information of nonpublic entities: preparation, compilation, and review.[15] When the practitioner is engaged to prepare, compile, or review such financial statements, he or she should do so in accordance with the procedures and reporting guidance in the SSARS, which is required not only under the *Compliance with Standards Rule* of the *Code of Professional Conduct*, but also under many state accountancy statutes.

102.37 **Form and Content** SSARS are issued by the AICPA Accounting and Review Services Committee (ARSC). ARSC exposes the standards before issuing them. When they are issued, the standards are published in the *Journal of Accountancy*. Free-standing copies of the new standard can also be purchased from the AICPA. Each new standard carries an effective date, which varies based on ARSC's assessment of the lead time practitioners require to implement the standard. The clarified standards are codified in the AR-C section of *Professional Standards*.

102.38 SSARS Application and Other Explanatory Material interpretations and exhibits explain sections of standards that are ambiguous or provide examples of the standards' application in situations not envisioned when they were originally issued. They are not enforceable under the *Code*, but practitioners should be prepared to justify departing from them if the quality of their work is challenged. Application and Other Explanatory Material interpretations and exhibits are not exposed before issuance. They are published in the *Journal of Accountancy* and usually on the AICPA's website at **www.aicpa.org** when issued. They are codified in the AR-C section of *Professional Standards* immediately following the standards to which they apply.

102.39 There have been 21 SSARS issued to date. They are:

• SSARS No. 1 (AR 100), *Compilation and Review of Financial Statements* (December 1978) (Superseded December 2010 by the issuance of SSARS No. 19).

• SSARS No. 2 (AR 200), *Reporting on Comparative Financial Statements* (October 1979) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 3 (AR 300), *Compilation Reports on Financial Statements Included in Certain Prescribed Forms* (December 1981) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 4 (AR 400), *Communications Between Predecessor and Successor Accountants* (December 1981) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 5, *Reporting on Compiled Financial Statements* (July 1982) (Superseded November 1992 by the issuance of SSARS No. 7).

• SSARS No. 6 (AR 600), *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* (September 1986) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 7, *Omnibus Statement on Standards for Accounting and Review Services—1992* (November 1992) (Not published as a stand-alone section) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 8, *Amendment to Statement on Standards for Accounting and Review Services No. 1*, *Compilation and Review of Financial Statements* (October 2000) (Not published as a stand-alone section) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 9, *Omnibus Statement on Standards for Accounting and Review Services—2002* (November 2002) (Not published as a stand-alone section) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 10, *Performance of Review Engagements* (May 2004) (Not published as a stand-alone section) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 11 *Standards for Accounting and Review Services* (May 2004) (Superseded December 2010 by the issuance of SSARS No. 19).

• SSARS No. 12, *Omnibus Statement on Standards for Accounting and Review Services—2005* (July 2005) (Not published as a stand-alone section) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 13 (AR 110), *Compilation of Specified Elements, Accounts, or Items of a Financial Statement* (July 2005) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 14 (AR 120), *Compilation of Pro Forma Financial Information* (July 2005) .

• SSARS No. 15, *Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services* (July 2007) (Not published as a stand-alone section) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 16, *Defining Professional Requirements in Statements on Standards for Accounting and Review Services* (December 2007) (Superseded December 2010 by the issuance of SSARS No. 19).

• SSARS No. 17, *Omnibus Statement on Standards for Accounting and Review Services—2008* (February 2008) (Not published as a stand-alone section). (Superseded October 2014 by the issuance of SSARS No. 21)

• SSARS No. 18, *Applicability of Statements on Standards for Accounting and Review Services* (February 2009) (Not published as a stand-alone section) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 19 (AR 60, AR 80, AR 90), *Compilation and Review Engagements* (December 2009) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 20, *Revised Applicability of Statements on Standards for Accounting and Review Services* (February 2011) (Not published as a stand-alone section) (Superseded October 2014 by the issuance of SSARS No. 21).

• SSARS No. 21 (AR-C 60, AR-C 70, AR-C 80, AR-C 90), *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (October 2014).

102.40 **Current Developments in Standard Setting for Preparations, Compilations, and Reviews for Nonpublic Entities** The basic task of the ARSC is to keep the existing SSARS up to date as changes are made in other authoritative literature and to make sure current standards coincide with recent developments in technology and regulation. From time to time, the ARSC also will issue interpretations, develop technical practice aids, or issue other guidance to address recurring practice problems relating to existing SSARS. The following paragraphs provide a brief discussion on some of the recent ARSC developments.

102.41 **SSARS Clarity Project** In May 2010, ARSC approved a project to clarify the compilation and review standards using the drafting conventions adopted by the Auditing Standards Board (ASB) and used by the ASB to clarify and converge the auditing standards with international auditing standards issued by the International Auditing and Assurance Standards Board (IAASB). Unlike with the auditing standards, convergence with international standards was not a primary factor for the compilation and review standards due to incompatibilities between the United States and international standards. In October 2014, ARSC issued final guidance in the form of SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*, to clarify and revise the compilation and review standards. Under the standards introduced by SSARS No. 21, in addition to compilation and review services, a new financial statement preparation service was made available. SSARS No. 21 is effective for engagements for financial statements for periods ending on or after December 15, 2015, with early implementation permitted. ARSC continues to work on proposed guidance on compilations of pro forma financial information to replace SSARS No. 14 (AR 120), the only SSARS not superseded by SSARS No. 21. The authors believe that an exposure draft of proposed guidance to supersede AR 120 might be available by the end of 2015. Additionally, proposed guidance that would move guidance on preparation or compilation of prospective financial information from the attestation standards to the compilation and review standards is still being discussed. For more detailed guidance on SSARS No. 21 and the remaining portions of the SSARS Clarity Project, see *PPC's Guide to Compilation and Review Engagements*. For guidance on the new SSARS preparation services, see *PPC's Guide to SSARS Preparation Engagements*.

Statements on Standards for Attestation Engagements (SSAEs)

102.42 **When They Apply** SSAEs apply whenever the practitioner is engaged to issue or does issue an examination, review, or agreed-upon procedures report on subject matter (or an assertion about the subject matter) that is the responsibility of another party. Technically, this definition includes services such as audits and reviews of financial statements, but the SSAEs say that they do not supersede any guidance in the SASs or SSARSs. So, the practitioner should refer to the latter standards for the services that they cover. The SSAEs provide for three levels of services: examination, review, and application of agreed-upon procedures. [16] Practitioners are required by ET 1.310.001 of the *Code of Professional Conduct* to follow the procedure and reporting guidance in SSAEs when they apply.

102.43 **Form and Content** SSAEs may be issued by any of three AICPA senior technical committees—the Auditing Standards Board, Accounting and Review Services Committee, or Consulting Services Executive Committee. The issuing committee exposes the standards before issuance. When they are issued, the standards are published in the *Journal of Accountancy*. Free-standing copies of the new standard can also be purchased from the AICPA. Each new standard carries an effective date, which is based on the committee's assessment of the lead time practitioners require to implement the standard. The standards are codified in the AT section of *Professional Standards*.

102.44 As of the date of this *Guide*, the following attestation standards are effective:

• SSAE No. 10, *Attestation Standards: Revision and Recodification*—SSAE No. 10 is organized in the following sections:

•• AT 101—*Attest Engagements*. (This is the umbrella standard that governs all types of attestation engagements.)

•• AT 201—*Agreed-upon Procedures Engagements*.

•• AT 301—*Financial Forecasts and Projections*.

•• AT 401—*Reporting on Pro Forma Financial Information*.

•• AT 601—*Compliance Attestation*.

•• AT 701—*Management's Discussion and Analysis*.

• SSAE No. 11, *Attest Documentation* [17] —SSAE No. 11 was issued in January 2002 and amends the documentation requirements of SSAE No. 10. Those documentation requirements are discussed further in section 905 of this *Guide*.

• SSAE No. 12, *Amendment to Statement on Standards for Attestation Engagements No. 10*, Attestation Standards: Revision and Recodification [17] —SSAE No. 12 was issued in September 2002 and also amends SSAE No. 10 to clarify the relationship of the SSAEs to quality control standards. The amendment clarifies that although an effective quality control system is conducive to compliance with SSARS, deficiencies in or noncompliance with a firm's quality control system do not, in and of themselves, indicate that an engagement was not performed in accordance with the attestation standards.

• SSAE No. 13 (AT 20), *Defining Professional Requirements in Statements on Standards for Attestation Engagements*. SSAE No.13 defines terms used in the SSAEs to impose professional requirements.

• SSAE No. 14 (AT 50), *SSAE Hierarchy*. This standard, which is discussed in more detail beginning at paragraph 102.46, identities the body of attestation literature and clarifies the authority of attestation publications.

• SSAE No. 15 (AT 501), *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, establishes standards and provides guidance to practitioners performing an examination of a nonissuer's internal control over financial reporting (internal control) that is performed as an integrated audit (an audit of an entity's financial statements and an examination of its internal control). SSAE No. 15 is discussed in more detail in Chapter 10.

• SSAE No. 16, *Reporting on Controls at a Service Organization*, provides guidance relating to reporting on the internal controls of a service organization and supersedes the service auditor portion of SAS No. 70. It is effective for service auditors' reports for periods ending on or after June 15, 2011. SSAE No. 16 is discussed in section 1002.

• SSAE No. 17, *Reporting on Compiled Prospective Financial Statements When the Accountant's Independence is Impaired*. This SSAE amends SSAE No. 10 (AT 301) and removes the prohibition against disclosing the reasons for an independence impairment in a compilation report on prospective financial statements, just as SSARS No. 19 removed this prohibition in a compilation report on historical financial statements. See *PPC's Guide to Forecasts and Projections* for a discussion of SSAE No. 17.

102.45 The AICPA also issues SSAE interpretations. These pronouncements explain sections of standards that are ambiguous or the standards' application in situations not envisioned when they were originally issued. They are not enforceable under the *Code*, but practitioners should be prepared to justify departing from them if their work is challenged. Interpretations are not exposed before issuance. They are published in the *Journal of Accountancy* and usually on the AICPA's website at **www.aicpa.org** when issued, and they are codified in the AT section of *Professional Standards* following the section they interpret.

102.46 **SSAE Hierarchy** SSAE No. 14, *SSAE Hierarchy*, identifies the body of attest literature and clarifies the authority of attest publications issued by the AICPA and others. It specifies the attest publications that the practitioner must comply with and those that the practitioner should be aware of when performing an engagement. The standard also amends the 11 attestation standards to conform them to the terms used in

SSAE No. 13.

102.47 SSAE No. 14 establishes three levels in the SSAE hierarchy:

a. *Attestation Standards*. Attestation standards consist of the 11 general, field work, and reporting standards and Statements on Standards for Attestation Engagements (SSAEs) issued by the AICPA's Auditing Standards Board (ASB). SSAEs are codified within the framework of the eleven standards. The AICPA *Code of Professional Conduct* requires members to comply with SSAEs.

b. *Attestation Interpretations*. Attestation interpretations are not attestation standards, but rather recommendations on applying the SSAEs in specific circumstances. Attestation interpretations include Interpretations of the SSAEs, appendixes to the SSAEs, and attestation guidance in AICPA Audit and Accounting Guides and AICPA Attestation Statements of Position. SSAE No. 14 states that practitioners should be aware of and consider applicable attestation interpretations. If the practitioner does not apply an attestation interpretation, the practitioner should be prepared to explain how he or she complied with the underlying SSAE provisions.

c. *Other Attestation Publications*. Other attestation publications have no authoritative status but may help practitioners understand and apply the SSAEs. Other attestation publications include AICPA publications not referred to in item b, attestation articles in professional journals and the AICPA *CPA Letter*, continuing professional education programs and other instructional materials, textbooks, guide books, attest programs and checklists, and attestation literature published by state CPA societies, other organizations, and individuals (for example, PPC guides). If practitioners apply the guidance in other attestation publications, they should satisfy themselves that the guidance is both appropriate and relevant. Appropriateness refers to whether the guidance is technically sound. Relevance refers to whether the guidance is applicable to the circumstances of a particular engagement. Indicators of appropriateness include the extent to which the publication is recognized as being helpful and the professional qualifications of its author or issuer. There is a presumption that other auditing publications reviewed by the AICPA Audit and Attest Standards staff are appropriate.

SSAE No. 14 also amended the 11 general, fieldwork, and reporting attestation standards to conform them to the terms used in SSAE No. 13. Under SSAE No. 14, all 11 attestation standards use the word *must* and are therefore unconditional requirements. Paragraph 902.24 includes a listing of the revised standards for attestation engagements under SSAE No. 14.

102.48 **Current Developments in Standard Setting: Project to Clarify the Attestation Standards** The Auditing Standards Board (ASB) has undertaken a comprehensive project to clarify (that is, revise, and reformat) the attestation standards in much the same way it clarified the auditing standards. The project is a two-phased approach:

a. Revision of the general attestation standards, which are currently contained in AT 20, AT 50, AT 101, and AT 201 (referred to as the *general sections*), and

b. Revision of the subject-matter specific guidance now codified in AT 301-801 (referred to as the *subject-matter sections*).

The Board has issued a series of exposure drafts that would revise the attestation standards and a new auditing standard as follows:

• A proposed revision to the general sections, exposed in July 2013. (Proposed Statement on Standards for Attestation Engagements *Attestation Standards: Clarification and Recodification*)

• Proposed revisions to the subject-matter sections dealing with prospective financial reporting (AT 301), pro forma financial information (AT 401), and compliance (AT 601), exposed in January 2014. (Proposed Statement on Standards for Attestation Engagements *Subject-Matter Specific Attestation Standards: Clarification and Recodification*)

• A proposed revision to the section on service organizations (AT 801), exposed in September 2014. (Proposed Statement on Standards for Attestation Engagements *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting: Clarification and Recodification*)

• A new Statement on Auditing Standards, SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an*

Audit of Financial Statements, was issued in October 2015 that supersedes AT 501 effective for integrated audits for periods ending on or after December 15, 2016, with early implementation permitted.

It is anticipated that the three attestation exposure drafts will be combined and issued as one new attestation standard that would supersede most of the current guidance in the attestation standards. (The new SAS is discussed in paragraph 102.62 and beginning at paragraph 1001.4.) The ASB has not approved the new SSAE for issuance as of the date of this *Guide*. Any new standard would not be issued before 2016 and would not be effective for reports issued before May, 2017. Practitioners can monitor the status of the project at **www.aicpa.org/interestareas/frc/auditattest/pages/attestclarityproject.aspx**.

102.49 The following paragraphs provide an overview of the format and content of the expected final standard based on the status of the project as of the date of this *Guide*.

102.50 **Structure** The new attestation standard would significantly restructure the standards into the following sections:

• **Common concepts**—matters that relate to all attestation engagements. For example, this section would discuss the need for a responsible party; detail the attributes necessary for criteria to be considered suitable; and establish requirements regarding acceptance and continuance of attestation engagements, documentation, and quality control.

• **Examinations**—the performance and reporting requirements and application guidance applicable to all examination engagements that would apply in addition to the common concepts.

• **Reviews**—the performance and reporting requirements and application guidance applicable to all review engagements that would apply in addition to the common concepts.

• **Agreed-upon procedures**—the performance and reporting requirements and application guidance applicable to all agreed-upon procedures engagements that would apply in addition to the common concepts.

• **Subject-matter specific engagements**—the incremental standards for engagements now codified in AT 301-801, such as examinations of compliance and service organization controls.

The new AT structure uses an incremental approach in order to reduce redundancy in the guidance. In other words, guidance in each service-related or subject-matter section would provide only the additional material relevant to the engagement. For example, guidance in common concepts would not be repeated in the examination section; instead, the examination section would provide only those additional requirements and guidance applicable to examinations. Guidance for specific services, for example examinations of financial forecasts (currently codified in AT 301), would not generally repeat guidance in the examination or common concepts section but would include only the incremental guidance relevant to the subject matter. As a result, a practitioner examining subject matter that is not the subject of a separate section, such as internal control over compliance, would refer to both the common concepts and examination sections. Similarly, a practitioner examining a financial forecast would refer to the common concepts, examination, and financial forecasts sections of the new attestation standard.

102.51 **Format.** Each section of the new standard (as described in paragraph 102.50) is formatted using the ASB's clarity drafting conventions, similar to those applied in the auditing standards; that is, the new attestation standard was developed using formatting techniques, such as bulleted lists, that make each section easier to read and understand. In addition, each section of the new standard will be divided into the following topics:

• **Introduction.** Includes matters such as the purpose and scope of the guidance, subject matter, effective date, and other introductory material.

• **Objectives.** Establishes objectives for each section of the standard that allow the practitioner to understand what the guidance in the section intends to achieve. The practitioner uses the objectives to determine whether additional procedures are necessary and to evaluate whether sufficient appropriate evidence has been obtained.

• **Definitions.** Provides key definitions, when relevant, in each section.

• **Requirements.** States the requirements that the practitioner is to follow to achieve the objectives unless the standard is not relevant or the requirement is conditional and the condition does not exist.

• **Application and Other Explanatory Material.** Provided separately from the requirements, the application and other explanatory material provides further guidance to the practitioner in applying or understanding the requirements. While this material does not in itself impose a requirement, practitioners should understand this guidance. How it is applied will depend on professional judgment in the circumstances considering the objectives of the specific section of the standard. The requirements topic references the related application and explanatory material. Also, when appropriate, the application and other explanatory material includes considerations relating to governmental entities or smaller, less complex entities. Finally, the application and other explanatory material paragraphs are numbered using an A- prefix and are presented following the requirements.

102.52 **Significant Changes Expected.** The new standards are expected to make wide-ranging revisions to the general attest standards by adopting relevant provisions of international standards and incorporating other concepts deemed necessary by the ASB. The changes expected in the subject-matter sections will serve principally to clarify the existing guidance and conform it to the format of the proposed revised general standards. The following discussion provides an overview of the most significant changes expected as a result of the ASB project. (Practitioners should refer to the final standard when issued for the actual changes. Future editions of this *Guide* will be updated for the standards when finalized.)

102.53 Written Assertions.. The exposure draft would have required the practitioner to obtain a written assertion from the responsible party in *all* attestation engagements. However, as of the date of the *Guide*, the ASB continues to debate this issue. The current standards state that a practitioner should *ordinarily* obtain a written assertion from the responsible party in an examination or review engagement. When the engaging party is not the responsible party, the practitioner currently can perform the engagement without obtaining a written assertion but is required to restrict the use of the report.

102.54 Representation Letters.. The new standard would require representation letters for *all* attestation engagements. Currently, AT 101 and AT 201 do not require representation letters, but AT 101 suggests that one be requested and AT 201 discusses the entity's refusal to provide one when the practitioner chooses to request a letter. In addition, AT sections for specific subject matter generally require representation letters (AT 301-801).

102.55 Although the practitioner would generally be required to obtain a representation letter from the responsible party, it is expected that the final standard would allow an exception to this rule when the responsible party is not the client. In that case, if the practitioner obtained satisfactory oral responses from the responsible party to the matters that would have been included in the representation letter, the practitioner could issue a report, but the report would have to be restricted to the client.

102.56 When the client is not the responsible party, the practitioner would also be required to obtain a separate representation letter from the client in all examination and review engagements. Although such a letter is suggested in the current standards, it is not required.

102.57 Incorporation of Auditing Concepts.. Because the ASB believes that an examination under the attestation standards is conceptually equivalent to an audit under GAAS, the proposed standard adopts several requirements previously found only in GAAS. The most significant of those is a requirement to apply risk-assessment procedures in an attest examination, which will establish a scope of testing that is responsive to the risks of material misstatement. The risk assessment would include an understanding of internal control over the subject matter and an assessment of risks of material misstatement of the subject matter.

102.58 The standard would also create requirements similar to those in the auditing standards in the following areas (although the requirements would be less detailed than the analogous auditing standards):

• Materiality

• Tests of controls

• Analytical procedures

- Estimates

- Sampling

- Fraud

- Internal auditors

Those proposed requirements would not apply to review engagements. Based on the ASB's logic that attestation engagements share many of the same attributes as their financial statement counterparts, the required understanding and procedures in a review under the attest standards would generally mirror those in a SSARS review.

102.59 Migration of Guidance for Compilations of Prospective Financial Information to the Compilation and Review Standards.. The guidance regarding compilations of prospective financial information—and the related requirement to comply with AT 301, *Financial Forecasts and Projections*, whenever the practitioner assembles and submits statements or reports on prospective financial statements for third-party use—would not be carried forward to the new attestation standard because compilations are not attest services, as that term is currently used in the attestation standards. It is anticipated that guidance for compilations of prospective financial statements will be provided in a future Statement on Standards for Accounting and Review Services, which is currently under development by the AICPA Accounting and Review Services Committee (ARSC). [18]

102.60 Expansion of Opinion in AT 301 Examinations.. The ASB expects to expand the examination opinion on a financial forecast or projection to specifically state that, in the practitioner's opinion, the assumptions are suitably supported. This conclusion is implicit in the extant report; the revised report would make it explicit.

102.61 Provide Criteria for AT 401 Engagements.. The new standard would describe the criteria to be used in an examination or review of pro forma financial information; such criteria are not explicit in current AT 401, *Reporting on Pro Forma Financial Information*. The proposed definition of criteria consists of what the responsible party claims to have done in developing the pro forma adjustments based on the proposed transaction or event. Those criteria would be disclosed in the presentation.

102.62 Migration of AT 501 to the Auditing Standards.. Because AT 501, *Integrated Examinations of Internal Control Over Financial Reporting*, applies only in conjunction with a financial statement audit, it will not be included in the revised attestation standard. The ASB concluded that it integrates more naturally in the auditing literature and has issued SAS No. 130 to replace AT 501. It is effective for integrated audits for periods ending on or after before December 15, 2016. The SAS is discussed at paragraphs 102.35 and 1001.4.

102.63 AT 701 to Retain Current Guidance.. AT 701, *Management's Discussion and Analysis*, was not revised because practitioners rarely perform those engagements. The ASB intends to retain AT 701 in the attestation standards in its current form and decide on its disposition at a future date.

102.64 Conform and Align AT 801. The purpose of the proposed revisions to AT 801, *Reporting on Controls at a Service Organization*, are to conform the standard with the first four chapters of the exposure draft of for the general standards and to align it with the 2013 edition of the AICPA Guide, *Service Organizations: Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*. Some of the significant revisions include adding and revising certain terms, clarifying the auditor's risk assessment process and expanding required risk assessment procedures to include reading relevant reports of the internal audit function and regulatory examinations, adding new requirements for management's assertion, and adding illustrative reporting language.

Statements on Standards for Consulting Services (SSCSs)

102.65 **When They Apply** SSCSs apply to engagements in which the practitioner develops the findings, conclusions, and recommendations presented. The practitioner does not attest to someone else's assertions, but is the one who develops the final presentation.

102.66 Consulting services include the following: consultations, advisory services, implementation services, transaction services, staff and other support services, and product services. They do not include any of the services described in SASs, SSARSs, or SSAEs. Nor do they include tax return preparation, tax planning or advice, tax representation, personal financial planning, or bookkeeping services. They also do not apply to recommendations or comments prepared during an excluded service (such as an audit) as a direct result of that service.

102.67 Practitioners are required by ET 1.310.001 of the *Code of Professional Conduct* to follow the procedure and reporting guidance in SSCSs when they apply.

102.68 **Form and Content** SSCSs are issued by the Consulting Services Executive Committee. It has issued only one SSCS to date: *Consulting Services: Definitions and Standards*.

102.69 The Consulting Services Executive Committee (which is currently not functioning) exposes the standards before issuance. When they are issued, the standards are published in the *Journal of Accountancy*. Free-standing copies of the new standard can also be purchased from the Institute. Each new standard carries an effective date, which is based on the committee's assessment of the lead time practitioners require to implement the standard. The standards are codified in the CS section of *Professional Standards*. No interpretations of the standard have been issued.

Statements on Standards for Valuation Services (SSVSs)

102.70 **When They Apply** Statement on Standards for Valuation Services (SSVS) No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*, applies to any AICPA member who accepts an engagement to estimate the value of a business, business interest, security, or intangible asset. For the purposes of applying SSVS No. 1, the definition of a *business* includes not-for-profit entities or activities. SSVS No. 1 provides certain exceptions, such as when:

- An employer asks a CPA employee who is not in the practice of public accounting to prepare a valuation for internal use purposes.

- The value of a business or business interest is provided by the client or a third party, and the CPA does not report on the value or perform any procedures to estimate the value.

- The engagement is specifically to determine the economic damages, such as lost profits. However, if the engagement also includes determining the value of a business or business interest, SSVS No. 1 would apply to that engagement.

- The engagement is limited strictly to performing a mechanical computation of value, such as determining the value of 100 shares of a publicly-traded stock based on the most recent selling price.

SSVS No. 1 is discussed beginning at paragraph 1201.10.

102.71 Practitioners are required by ET 1.310.001 of the *Code of Professional Conduct* to follow the procedure and reporting guidance in SSVS No. 1 when it applies. SSVS No. 1 points out that practitioners engaged to estimate value should be aware of any governmental regulations and other professional standards that apply to the engagement, including the AICPA *Code of Professional Conduct* and the SSCS No. 1, and the extent to which those standards apply to engagements to estimate value.

Statements on Quality Control Standards (SQCS)

102.72 Statement on Quality Control Standard No. 8, *A Firm's System of Quality Control*, establishes standards and provides guidance for a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice. SQCS No. 8 is discussed in more detail beginning at paragraph 103.1.

Accounting Frameworks

102.73 **Generally Accepted Accounting Principles** FASB ASC 105-10 establishes the *FASB Accounting Standards Codification*™ as the single source of authoritative generally accepted accounting principles (GAAP) to be applied by non-SEC companies. (All other accounting literature not included in the Codification is nonauthoritative.)

102.74 New standards the FASB issues are issued through an accounting standards update (ASU). ASUs are sequentially numbered by year. All authoritative GAAP issued by the FASB will apply this format. Additional information is available in *PPC's Guide to Preparing Financial Statements* and *PPC's Guide to GAAP*.

102.75 **Special Purpose Frameworks** Bases of accounting other than GAAP, which are now primarily referred to in the authoritative literature as *special purpose frameworks*, are a widely used alternative to the numerous and sometimes complex accounting requirements prescribed by GAAP. Also contributing to the use of non-GAAP financial reporting is the availability of inexpensive accounting software, which allows individuals more familiar with tax laws than with GAAP to maintain records and prepare financial statements with relative ease. [19] Compared to the voluminous amount of GAAP basis guidance available, limited authoritative guidance exists for using special purpose frameworks.

102.76 The use of special purpose frameworks is discussed in the audit standards and the SSARS. AU-C 210, *Terms of Engagement* requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. Ordinarily,

that framework is provided by GAAP; but AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* and SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*, allow special purpose frameworks to be used. AU-C 800.07, AR-C 70.07, AR-C 80.05, and AR-C 90.05 describe the following special purpose frameworks:

- *Cash Basis.* A basis of accounting used by the reporting entity to record cash receipts and disbursements. It includes modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets), commonly known as the *modified cash basis*.

- *Tax Basis.* A basis of accounting the reporting entity uses to file its tax return for the period covered by the financial statements.

- *Regulatory Basis.* A basis of accounting used by the reporting entity to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).

- *Contractual Basis.* A basis of accounting used by the entity to comply with an agreement between the entity and one or more third parties other than the practitioner.

- *Other Basis.* A basis of accounting utilizing a definite set of logical and reasonable criteria that is applied to all material items within the financial statements.

102.77 In clarifying the SSARS guidance, one of the many revisions ARSC incorporated was a switch from using the term *other comprehensive basis of accounting* (OCBOA) to using the term *special purpose framework*. The term *financial reporting framework* is still used in SSARS to describe any type of financial reporting framework, including those of GAAP and IFRS. The FASB Codification and the auditing standards, including AU-C 800, predominantly use the term *special purpose framework*. However, according to AU-C 800.07, the cash, tax, regulatory, and other basis of accounting are also commonly referred to collectively as *other comprehensive bases of accounting*. SSARS 21 provides the same definition of *other comprehensive bases of accounting*. Additionally, the use of the term *OCBOA* continues to be commonly used in practice. In anticipation of the clarified attestation standards, this *Guide* uses the terms *special purpose framework* and *other comprehensive bases of accounting* for consistency throughout.

102.78 The definition of *financial reporting framework* in the SSARS indicates that a definite set of criteria can include U.S. GAAP or International Financial Reporting Standards (IFRS). While that definition added a reference to IFRS, this *Guide* does not address IFRS. SSARS 21 also introduced disclosure guidance for special purpose framework engagements under SSARS. The disclosure requirements vary by type of SSARS engagement. For preparations, AR-C 70.15 states that a description of the financial reporting framework should be included on the face of the financial statements or in a note to the financial statements. For compilations (AR-C 80.08) and reviews (AR-C 90.09), the guidance states that all informative disclosures that are appropriate for the applicable financial reporting framework should be included in the financial statements.

102.79 As mentioned in the footnote to paragraph 102.75, practitioners who are involved with financial statements that are prepared using a special purpose framework still need to be familiar with GAAP requirements. When special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, AU-C 800.17 and SSARS No. 21 (AR-C 80.18d and AR-C 90.40d) state that the financial statements should include informative disclosures similar to those required by GAAP. In addition, AU-C 800.17 and SSARS No. 21 [AR-C 80.08(a)(iii) and AR-C 90.09(a)(iii)] state that additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements, or other disclosures, might be necessary for the financial statements to achieve fair presentation.

102.80 The AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities. In May 2012, the AICPA announced its plans to develop an other comprehensive basis of accounting financial reporting framework (FRF) to meet the needs of certain privately held small-sized and medium-sized entities (SMEs), as well as the users of those entities' financial statements. The AICPA envisions that this optional SME framework will provide a less complicated and less costly system of accounting for SMEs that do not need GAAP financial statements. In addition, it is anticipated that the FRF for SMEs will meet the criteria for the *other basis* type of OCBOA. In June 2013, the AICPA issued its *Financial Reporting Framework for Small- and Medium-Sized Entities* (FRF for SMEs™).

102.81 Since the AICPA announced its development of the FRF for SMEs, it has published a short question-and-answer document about the framework, which is available on the Private Company Financial Reporting webpage of the AICPA website at **www.aicpa.org**.

[7] This *Guide* is not intended to provide guidance related to the PCAOB auditing standards. *PPC's Guide to PCAOB Audits* contains detailed guidance and practice aids for practitioners performing audits under the PCAOB standards.

[8] ET 0.400.04 of the *Code* defines an *attest engagement* as an engagement that requires independence as defined in AICPA *Professional Standards*. Agreed-upon procedures engagements, audits, examinations, and reviews are all attest engagements. Although compilations can be performed by practitioners who are not independent, the standards require that a lack of independence be disclosed in compilation reports. Thus, the independence rules should be considered for compilations as well as other attest engagements. Nonattest services include, among other things, consulting, bookkeeping, and tax services. In addition, activities such as financial statement preparation, cash to accrual conversions, and reconciliations are considered nonattest services, even if performed as part of the attest engagement.

[9] *Member* refers to a member, associate member, or international associate of the American Institute of Certified Public Accountants.

[10] A violation under ET 1.310.001 is much less severe than a violation under ET 1.200.001. The former may only generate an item for discussion, whereas the latter could result in a modified opinion in peer review.

[11] The Interpretation states that a tax return includes informational tax forms.

[12] The guidance states that making electronic payments under a taxing authority's specified criteria or remitting a check payable to the taxing authority signed by the client is not considered to be having custody or control of the client's funds.

[13] A court encompasses a tax court, district court, or federal court of claims and equivalent state, local, or foreign forums. In addition, representation before forums that are equivalent to a court would impair independence. PEEC has determined that the following criteria would be indicative that the forum is equivalent to a court: (a) The forum is presided over by a trier of fact who is independent of the taxing authority and is empowered to render a determination that is binding (absent appeal); (b) The forum conducts formal proceedings governed by a set of procedural rules dealing with matters such as evidence and testimony; (c) The forum is the last opportunity for the parties to present new factual evidence so that any appeal of the forum's decisions would involve only a review of the forum's records, including its factual or legal findings, and not an evidentiary hearing.

[14] Under ET 0.400.09, *confidential client information* is generally “any information obtained from the client that is not available to the public.” The definition lists several examples of information that is available to the public, including information in periodicals, websites, or filed with regulatory bodies.

[15] The SSARS are not applicable to interim reviews if the annual financial statements are audited. In those instances, AU-C 930, *Interim Financial Information*, as amended, would apply. See section 909 of *PPC's Guide to Audits of Nonpublic Companies* for a discussion of interim SAS reviews.

[16] AT 301, *Financial Forecasts and Projections*, also allows for compilations of prospective financial statements.

[17] SSAE Nos. 11 and 12 are amendments to SSAE No. 10 and are not separately codified in the AT section of the authoritative standards. All references to SSAE No. 10 in this *Guide* are to SSAE No. 10, as amended by SSAE Nos. 11 and 12.

[18] The ARSC expects to expose a proposed standard for compilations of prospective financial information for public comment in a late 2015 meeting. Practitioners should be alert for the issuance of this exposure draft. Future editions of this *Guide* will update the status of that project.

[19] Because special purpose framework financial statements should include disclosures similar to those required by GAAP when the financial statements contain items that are the same as or similar to GAAP, the authors believe accountants should not accept an engagement to prepare such financial statements unless they have a good foundation in generally accepted accounting principles.

END OF DOCUMENT -

103 Quality Control and Peer Reviews

Statement on Quality Control Standard No. 8 and Other Engagement-level QC Requirements

103.1 Statement on Quality Control Standard No. 8, *A Firm's System of Quality Control*, establishes standards and provides guidance for a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice. QC 10.12 states that the objective of the firm is to “establish and maintain a system of quality control to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements,” and that the firm or engagement partners issue reports that are appropriate in the circumstances. The firm's quality control system consists of policies and procedures.

103.2 The purpose of a quality control system is to promote quality in performing accounting and auditing engagements. As the QC standards indicate, a firm's system of quality control is a system designed to provide the firm with reasonable assurance that the firm is (a) complying with professional standards and legal and regulatory requirements, and (b) issuing reports that are appropriate in the circumstances. In developing and maintaining its quality control system, a firm establishes policies designed to achieve the objectives associated with obtaining reasonable assurance and procedures required to implement and monitor compliance with the policies. *Reasonable assurance* is defined as a “high, but not absolute, level of assurance” (QC 10.13).

103.3 The nature of the policies and procedures the firm develops to obtain reasonable assurance and comply with the requirements of SQCS No. 8 will depend on various factors, such as the following:

- The size of the firm.
- The operating characteristics of the firm, for example—
  - Types of services provided.
  - Types of industries served.
  - Number of partners.
  - Number of professional personnel.

103.4 **Professional Requirements** SQCS No. 8 establishes requirements regarding the firm's degree of responsibility it has in complying with the requirements of the standard. The firm's professional requirements as defined in the standard are designated into two categories:

- *Unconditional Requirements.* Unconditional requirements are those the firm must follow in all cases if the circumstances apply to the requirement. These requirements use the words *must* or *is required*.

• *Presumptively Mandatory Requirements.* Firms are also expected to comply with presumptively mandatory requirements if the circumstances apply to the requirement; however, in rare situations, a departure from the requirement is allowed if the firm documents the justification and how alternative procedures that were performed were sufficient to achieve the objectives of the requirement. Presumptively mandatory requirements are identified by the word *should*. If the SQCS uses the words *should consider* for a procedure, the consideration of the procedure is presumptively required.

103.5 **Elements of a Quality Control System** QC 10.17 states that the firm's system of quality control should incorporate policies and procedures that address each of the following QC elements:

• *Leadership Responsibilities for Quality within the Firm (tone at the top).* The firm has policies and procedures to promote an internal culture which is based on the recognition that quality is essential in performing engagements.

• *Relevant Ethical Requirements.* The firm and its personnel comply with relevant ethical requirements.

• *Acceptance and Continuance of Client Relationships and Specific Engagements.* The firm undertakes or continues only client relationships and engagements in which the firm (a) considers the client's integrity and the risks associated with performing the client engagement; (b) determines the firm has the competence, capabilities, and resources to perform the engagement; and (c) determines the firm can comply with legal and ethical requirements.

• *Human Resources.* The firm has sufficient personnel with the capabilities, competence, and commitment to ethical principles to (a) perform engagements in accordance with professional standards and legal and regulatory requirements, and (b) enable the firm to issue reports that are appropriate in the circumstances.

• *Engagement Performance.* Work performed by engagement personnel consistently complies with applicable professional standards and regulatory requirements, and that the firm issues reports that are appropriate in the circumstances.

• *Monitoring.* The policies and procedures established by the firm for the other elements of quality control are (a) relevant and adequate, (b) operating effectively, and (c) consistently in compliance.

103.6 **Documentation and Communication of the Firm's QC Policies and Procedures** QC 10.18 states that the firm should document its QC policies and procedures. However, matters such as the nature of the firm's practice, its size, and its structure may be considered in determining the *extent* of documentation of the firm's QC policies and procedures. Documentation of the policies and procedures of a single-office firm with a small number of partners and staff would not be expected to be as extensive as those of a large, multi-office firm.

103.7 SQCS No. 8 does not require the firm to have a formal quality control policies and procedures *document*; instead, the standard indicates only that the firm's QC policies and procedures be *documented*. SQCS No. 8 allows the firm to have flexibility and latitude in determining the documentation method that best suits their individual practice and circumstances.

103.8 In reality though, it is apparent that having a quality control policies and procedures document is now expected by the AICPA. The questionnaires used by reviewers during the course of peer review specifically state that the comprehensive QC document used by the firm that was effective for the *peer review year* should be provided to the reviewer. That is, the firm is expected to provide to the peer reviewer a QC document that has been followed for the past year, not a document or questionnaire completed solely for peer review purposes.

103.9 In addition to documenting its QC policies and procedures, QC 10.18 states that the firm should communicate its QC policies and procedures to firm personnel. That communication is not required to be in writing, although written communication is preferable. An effective firm communication of its QC policies and procedures, as described at QC 10.A2, incorporates the following:

• A description of the policies and procedures and the objectives they achieve.

• A message that each person is responsible for maintaining quality, as well as being familiar with the policies and procedures and complying with them.

• Comments stressing the importance of receiving feedback on how the QC system is operating and encouraging staff to communicate their concerns on quality control issues.

103.10 This practice monitoring requirement is applicable to firms that provide preparation, compilation, and review services, as well as firms that have an accounting and auditing practice, and requires those firms to undergo a peer review at least once every three years. As a result, such firms must have in place a quality control system that will withstand such a review or risk termination of firm membership in the program, individual memberships in the AICPA, and, in some states, loss of their licenses to practice.

103.11 Quality control materials consist of programs, checklists, sample confirmation letters, and other practice aids. When designing the firm's quality control policies and procedures, the firm should indicate the QCM that are being used, or make reference to the firm's accounting manuals that contain the firm's QCM.

103.12 The AICPA Practice Aid, *Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, provides illustrative examples of various types of policies and procedures a firm should consider when developing its system of quality control under the guidelines of SQCS No. 7. Illustrative examples of quality control documents are provided for four hypothetical firms varying in size, as follows:

• Firm with multiple offices.

• Single office firm.

• Sole practitioner.

• An alternative practice structure.

The AICPA Practice Aid is not authoritative and only presents the recommendations of the AICPA Quality Control Standards Task Force on the applicability of SQCS No. 7. Even so, the AICPA Practice Aid may be a good resource for use by the firm when drafting its QC policies and procedures. The AICPA Practice Aid can be purchased from the AICPA store at **www.cpa2biz.com**.

103.13 In addition, *PPC's Guide to Quality Control* [20] can assist firms in this task. It illustrates suggested policies and procedures that address the elements of quality control listed in SQCS No. 8. It is integrated with the checklists and procedures that are presented in this *Guide* and is updated annually to keep firms aware of recent developments relating to quality control issues and peer reviews. The authors encourage practitioners to add this *Guide* to their libraries. [For order information call (800) 431-9025 or access PPC's website at **tax.thomsonreuters.com**.]

103.14 **Engagement-level Quality Control Guidance for Audits** Auditing guidance related to quality control is relevant to various engagements discussed in this *Guide*, such as audits of specified elements, discussed in Chapter 5, and special purpose presentations, discussed in Chapter 6. AU-C 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, issued as part of SAS No. 122, provides engagement-level quality control requirements for audits. It provides, in part, that—

• Audit engagement teams have a responsibility, as it relates to the firm's system of quality control, to implement quality control procedures that apply to the audit engagement and provide the firm with relevant information that enables the functioning of the firm's quality control system relating to independence.

• The audit engagement partner should assume the responsibility to ensure the overall quality of each audit engagement to which he or she is assigned.

• The engagement partner should remain alert for evidence of noncompliance with relevant ethical requirements by engagement team members.

• The audit engagement partner has additional responsibilities regarding independence, including forming a conclusion about compliance with independence requirements that apply to the engagement.

• The audit engagement partner should be satisfied that appropriate procedures regarding acceptance and continuance of client relationships and specific engagements have been followed and appropriate conclusions have been reached and documented.

• The audit engagement partner should be satisfied that the entire engagement team has appropriate competence and capabilities to perform the audit engagement as required by professional standards and applicable legal and regulatory requirements.

• Responsibility be placed on the audit engagement partner to (a) ensure that appropriate consultation is undertaken and (b) be satisfied that the conclusions resulting from consultation are understood by the party consulted and that the conclusions are implemented.

• The audit engagement partner has responsibility related to assuring the proper performance of an EQCR when EQCR is required for an audit engagement.

• The audit engagement partner should consider whether any deficiencies noted in communications regarding the results of the firm's monitoring process may affect the audit engagement.

See *PPC's Guide to Audits of Nonpublic Companies* for additional discussion of AU-C 220.

103.15 **Engagement-level Quality Control Guidance for SSARS No. 21 Engagements** AR-C 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*, issued as part of SSARS No. 21, provides engagement-level quality control requirements for various engagements performed under the SSARS, such as preparations, reviews, and compilations of specified elements discussed in Chapter 5 and special purpose presentations discussed in Chapter 6 of this *Guide*. It provides general principles for firms to follow when performing an engagement under the new SSARS No. 21. AR-C 60 is a standard that directs the firm in more than applying quality control at the engagement level. However, it does provide certain engagement-level quality control requirements and guidance that the engagement partner should follow. While there is not a requirement for every QC element included in SQCS No. 8 (unlike AU-C 220), several of the QC elements are specifically addressed in AR-C 60. The responsibility to ensure compliance with those engagement-level quality control requirements is primarily placed on the engagement partner. However, the related application guidance indicates that the engagement team also has responsibility to implement engagement-level quality control procedures. In meeting the requirements, the engagement team may rely on the firm's quality control system unless the firm or other parties have indicated that it is inappropriate to do so.

AICPA Peer Review Standards

103.16 If a CPA firm has an accounting and auditing practice as defined by the Peer Review Standards [21] (see paragraph 103.20), the firm should enroll in the AICPA Peer Review Program or the peer review program of the National Peer Review Committee (National PRC) (previously known as the Center for Public Company Audit Firms). Preparation, compilation, and review firms generally enroll in the AICPA Peer Review Program because of the types of engagements performed. [22] If the firm does not perform accounting and auditing services as defined by the Peer Review Standards, the firm is not required to have a peer review. Individual CPAs in non-CPA owned firms must enroll in a peer review program if they perform SSARS compilations and issue compilation reports.

103.17 A firm can join the AICPA Peer Review Program by completing the AICPA's Peer Review Program Enrollment Form and submitting it to the AICPA. That form can be obtained from the AICPA website at **http://www.aicpa.org/InterestAreas/PeerReview/Resources/PeerReviewForms/DownloadableDocuments/enroll900.pdf** or from the administering entities. To enroll in the AICPA Peer Review Program, at least one partner of the firm must be a member of the AICPA and the ownership of the firm must be in compliance with Council resolutions as outlined at ET Appendix B. Practitioners who are not members of the AICPA, but are required to have a peer review for licensing purposes, should enroll directly with the administering entity for their state. This is generally the State Society of CPAs. However, it may be with another state society outside their state if their state is not administering the program.

103.18 The AICPA *Code of Professional Conduct* requires members to practice in firms that have quality control procedures for ensuring that

services are competently delivered. The bylaws of the AICPA include a requirement at BL Section 220 at 2.2.3 and BL Section 230 at 2.3.4 that, in order to qualify for membership in the AICPA, persons engaged in public practice as an owner or as an employee who has been licensed as a CPA for more than two years, either are—

a. practicing in a CPA firm that is enrolled in an AICPA-approved practice monitoring program if the firm performs services that are within the scope of the AICPA's practice monitoring standards and the firm issues reports purporting to be in accordance with the AICPA professional standards, or

b. if authorized by Council, are themselves enrolled in such a program.

Practice monitoring programs help protect the public interest in the quality of accounting, auditing, and attestation services performed by public accounting firms. Additionally, most state boards of accountancy require licensees to undergo practice monitoring, also known as compliance assurance at the state level, to practice in their state, regardless of whether the firm or its personnel are AICPA members.

103.19 The term *public practice* is defined in ET 0.400.42 of the *Code* as follows:

> **Public Practice.** Public practice consists of the performance of professional services for a client by a member or a member's firm.

103.20 The term *accounting and auditing practice* is defined in both SQCS No. 8 and the AICPA's *Standards for Performing and Reporting on Peer Reviews*. The Peer Review Standards definition tells which *accounting and auditing engagements* are subject to peer review. The Peer Review Standards, Paragraph 6, define an *accounting and auditing practice* as follows:

> An *accounting and auditing practice* for the purposes of these standards is defined as all engagements covered by Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARSs) (Footnote 4) (see Interpretations); Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office; and audits of non-SEC issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).
>
> Footnote 4: SSARS that provide an exemption from those standards in certain situations are likewise excluded from this definition of an accounting and auditing practice for peer review purposes (see Interpretations).

103.21 SQCS No. 8 defines an *accounting and auditing practice* as—

> A practice that performs engagements covered by this section, which are audit, attestation, compilation, review and any other services for which standards have been promulgated by the AICPA Auditing Standards Board (ASB) or the AICPA Accounting and Review Services Committee (ARSC) under ET 1.300.001, *General Standards Rule*, or ET 1.310.001, *Compliance With Standards Rule*, of the AICPA *Code of Professional Conduct*. Although standards for other engagements may be promulgated by other AICPA technical committees, engagements performed in accordance with those standards are not encompassed in the definition of an *accounting and auditing practice*.

Although there are subtle differences in the wording of the definitions of an accounting and auditing practice as found in the Peer Review Standards and SQCS No. 8, it is the AICPA Peer Review Board's intent that the definitions cover the same types of engagements. Accordingly, the types of engagements subject to a firm's peer review are the same types of engagements that should be included in a firm's QC system.

103.22 The Peer Review Standards and related Interpretations are located in the AICPA Peer Review Program Manual at Sections 1000 and 2000, respectively (codified as PR 100 and PR 9100, respectively). The guidance is also currently available on the AICPA website at **www.aicpa.org/InterestAreas/PeerReview/Resources/PeerReviewProgramManual/**.

103.23 **Types of Reviews** The Peer Review Standards provide for two types of reviews: a system review and an engagement review. Firms that perform audit engagements under the auditing standards or *Government Auditing Standards*, all examinations under the SSAEs, or audits of non-SEC issuers performed under the standards of the PCAOB are required to have a system review every three years. Firms that have an accounting and auditing practice, as defined by the Peer Review Standards, but do not perform the types of engagements that require a system review and instead perform only services under the SSARS or the SSAEs (excluding examinations), are required to have an engagement review every three years, but may elect to have a system review. Firms that do not perform any of these services are not required to undergo peer review. The following paragraphs provide a brief summary of the objectives of system reviews and engagement reviews. Practitioners should refer to *PPC's Guide to Quality Control* for detailed guidance on the peer review standards.

103.24 System Reviews. The Peer Review Standards (PR 100.37) state that “a system review is designed to test a reasonable cross-section of the firm's engagements with a focus on high-risk engagements, in addition to significant risk areas where the possibility exists of engagements not being performed and/or reported on in conformity with applicable professional standards in all material respects.” A system review is not designed to test every engagement or compliance with every professional standard.

103.25 The objectives of system reviews are as follows (PR 100.36):

- The reviewed firm's system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards established by the AICPA.

- The reviewed firm's quality control policies and procedures were being complied with in order to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

System reviews are discussed in more detail in Chapter 8 of *PPC's Guide to Quality Control*.

103.26 Engagement Reviews. The Peer Review Standards (PR 100.102) state:

> The objective of an engagement review is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. An engagement review consists of reading the financial statements or information submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations and the applicable documentation required by professional standards. [23]

103.27 The peer reviewer does not attempt to evaluate the adequacy of the firm's quality control system. Consequently, engagement reviews do not involve a test of administrative or personnel files, personnel interviews, or other nonengagement procedures performed in system reviews. Since an engagement review does not evaluate the firm's system of quality control, an engagement review report is very different from a system review report, which expresses an opinion on the firm's QC system. The engagement review report provides assurance only on the firm's engagements. Engagement reviews are discussed in more detail in Chapter 9 of *PPC's Guide to Quality Control*.

103.28 **Applicability of Peer Review and Quality Control Standards to AUP Engagements** Under the peer review standards, firms that perform agreed-upon procedures engagements are subject to an engagement review unless they also have performed any of the engagements that would require them to have a system review, as previously discussed. Such firms also are subject to the requirements of SQCS No. 8, which requires firms to establish quality control systems. As discussed in Chapter 9, the authors recommend that a firm's quality control system cover all types of accounting, auditing, and attestation services, including agreed-upon procedures engagements. The practice aids in this *Guide* provide compliance with the quality control system in *PPC's Guide to Quality Control*.

Common Deficiencies Noted in Peer Reviews

103.29 The AICPA's Peer Review Board in its “Annual Report on Oversight,” lists examples of noncompliance with applicable AICPA Professional Standards that have been noted on peer reviews. The report lists two significant engagement deficiencies related to attestation procedures and documentation:

- Failing to clearly identify the responsible party and/or failure to have the responsible party accept responsibility for its assertions or subject matter.

- Failing to appropriately label pro forma financial information to distinguish it from historical financial information.

103.30 The Board's report lists many other deficiencies, including those found on audit, review, or compilation engagements and those applicable to specific industries. The September 18, 2015 report is available at **www.aicpa.org/InterestAreas/PeerReview/Resources/Transparency/DownloadableDocuments/AnnRptOversight2015.pdf**. [24] Practitioners should be aware of these examples of noncompliance and take steps to avoid these mistakes.

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[20] *PPC's Guide to Quality Control—Compilation and Review* can be used by firms that perform engagements to compile and review financial statements.

[21] The AICPA recently issued an exposure draft of proposed changes to the AICPA peer review standards. The proposed changes are expected to be significant. Practitioners are encouraged to review the exposure document, which is available at **www.aicpa.org/Research/ExposureDrafts/PeerReview/DownloadableDocuments/Improve_Transpa0./rency_Effectiveness_PR_ED.pdf**. Comments are requested by January 31, 2016. Future editions of this *Guide* will update the status of this proposed guidance.

[22] After implementation of SSARS No. 21, if the highest level of service is financial statement preparation, the firm is not required, but may

choose, to be enrolled in peer review.

[23] On May 20, 2014, the Peer Review Board (Board) issued an exposure draft of proposed guidance, *Reporting on Engagement Reviews*, to address the inconsistencies in report ratings for firms that perform one engagement versus multiple engagements with deficiencies identified on each. The draft proposed that a firm that performs more than one engagement with the same deficiency identified on each engagement should receive a fail report. The proposed guidance was adopted by the Board and the change was effective for peer reviews with a report date on or after January 1, 2015.

[24] The AICPA report titled, *Recommendations for Enhancing the AICPA Peer Review Programs in a Transparent Environment*, is available on the Peer Review Transparency main page at **http://www.aicpa.org/INTERESTAREAS/PEERREVIEW/RESOURCES/TRANSPARENCY/Pages/default.aspx**.

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104 Recent Developments in Nontraditional Engagements—assurance Services

What Are Assurance Services?

104.1 *Assurance services* are defined as “independent professional services that improve the quality of information, or its context, for decision makers.” Such information can be financial or nonfinancial, historical or prospective. It might be internal or external to the user and might involve discrete data or systems.

104.2 Assurance services is a broad concept that includes audit and attestation services. It is distinct from consulting (although there can be similarities) because it focuses primarily on improving information rather than providing advice or installing systems. However, as a practical matter, the distinctions between the services are unimportant. What is important is identifying new ways to bring value to clients by meeting their information needs.

Why All the Commotion?

104.3 *Assurance services* is the name given to a class of services. The services are, in some cases, already offered by some CPA firms. However, no firm offers all the assurance services, and some assurance services are not yet provided by anyone. Although some of the services are not new, what is new is a way of thinking about—and creating—services and the AICPA's involvement in their identification, development, and delivery.

104.4 Many innovative firms are already successfully providing many nontraditional services. Besides the services mentioned in this *Guide*, firms offer such unique services as:

- Selling investments.
- Installing computer systems.
- Mediation services.

104.5 Even so, the AICPA concluded that the profession would best be served if firms delivered a core group of new services that could be widely recognized as CPA services—ones that meet client needs by deploying traditional, but refined, CPA skills. Because the profession is best known for its audit-like services, its greatest competitive advantage is in expanding the range of these services to meet client needs that are currently unsatisfied. Thus, assurance services are a natural evolution of the audit service, although they are not necessarily bound by auditing or attestation standards.

History of Assurance Services

104.6 The AICPA's Special Committee on Assurance Services (the Elliott Committee) was created in 1994 to explore the expansion of audit-like services into new areas. The committee had no standard-setting authority, and it did not recommend specific new standards to any standard-setting body. Its charge was to help develop new service opportunities and better position the profession for the future. Over a two-year period, the Committee performed research in the following areas:

- Customer needs.

• Megatrends.

• Information technology.

• CPA competencies.

104.7 The Committee's goals were to—

• Develop a new concept of professional service—assurance services—to serve as a foundation for new opportunities.

• Identify and define specific services for the CPA to deliver.

• Create ongoing mechanisms to develop service opportunities in the future.

104.8 The Elliott Committee research identified thirteen specific new service opportunities. Some of the services appeal to small firms, others to large firms. Some are technology-dependent, others are not. The services identified by the Committee are:

• *Business Performance Measurement.* Business performance measurement helps clients identify relevant performance measures and establish systems for their capture. Many small businesses lack meaningful ways to help track results. The service can be expanded to incorporate comparison to industry norms or best practices. Performance measurement services are discussed in detail in Chapter 3.

• *Comprehensive Risk Assessments.* In providing risk assessment services, the practitioner provides an objective and comprehensive assessment of a client's risks. Services on risk assessments can help identify risks that could affect an entity's ability to achieve its goals or can provide assurance on the procedures in place to mitigate risks. Many smaller entities have no formal approach to risk identification. Others simply lack the ability or perspective to identify the risks they face or to implement strategies to deal with them. Risk assessment services are discussed in detail in Chapter 15.

• *ElderCare Plus.* [25] ElderCare Plus provides assurance to adult children regarding care for their elderly parents or others. The CPA provides assurance that specified goals are being met by various caregivers, financial matters are under control, or other matters specified by adult children are adequately attended to. Many prospective clients are already tax or financial planning clients. Eldercare services are discussed in detail in Chapter 14.

• *WebTrust.* With WebTrust, now known as Trust Services, the practitioner provides assurance to consumers and businesses who transact business over the World Wide Web. The engagement comprises an examination of an organization's compliance with one or more of the WebTrust principles and criteria. Examples of the areas to be examined include privacy, security, and availability. WebTrust is discussed further in section 1307.

• *Information Systems Reliability Assurance.* Systems reliability services provide an assessment of the controls that ensure the reliability of information used to make operating decisions (which often does not come out of the financial reporting system). It may involve systems that produce nonfinancial or operating data. (An example of this type of service is SysTrust, which is discussed in section 1307.)

• *Policy Compliance.* In policy compliance, the CPA provides assurance on specific company policies, such as codes of conduct, human resource policies, treasury functions, or operating procedures. The policies might be based on internal control concerns, laws, or regulations. Or, they might be based on the company's philosophy or as a preventative approach to potential risks.

• *Trading Partner Accountability.* With this service, the CPA provides assurance that the client's trading partners have appropriately fulfilled their responsibilities. For example, a client might collect royalties or rents based on sales made by another entity. Or it may contract with suppliers that promise to charge their lowest prices or use specific billing practices.

• *Mergers and Acquisitions.* In this type of service (sometimes called *due diligence* work), the CPA provides assurance for the purchaser/acquirer in a merger or acquisition. The CPA can provide insights into business risks, the appropriateness of accounting methods, amounts reported, values, adequacy of systems and controls, and other information. There is generally little publicly available data on small company acquires, which increases the importance of getting relevant and reliable internal data. Chapter 12 discusses acquisition assistance engagements in further detail.

• *Outsourced Internal Auditing.* In providing outsourced internal auditing, the CPA provides internal audit services to either supplement or replace internal audit departments. Services might relate to financial data or nonfinancial data, such as quality control, customer satisfaction, or productivity. (Section 1310 discusses providing outsourced internal auditing.)

• *ISO 9000.* In this type of service, the CPA reports on a company's compliance with ISO 9000 (and similar series) standards that provide assurance about clients' quality control.

• *AIMR Compliance.* In providing AIMR Compliance, the practitioner provides assurance on investment managers' conformity with Association for Investment Management and Research (AIMR) Performance Presentation Standards.

• *World Wide Web Assertions.* With this type of service, practitioners would report on the reliability or usefulness of information contained in Web home pages. The CPA report would reside online along with the information and could be accessed when the information in the home page is accessed.

• *Other.* The Elliott Committee surveyed large firms to identify assurance services they already provide. It found almost 300 services.

104.9 In 1996, the Assurance Services Executive Committee (ASEC) was created to extend the development of some of the assurance services cited by the Elliott Committee as having the greatest potential for practitioners. ASEC has developed the following services:

• Trust Services (previously WebTrust and SysTrust services).

• Eldercare.

• Business Performance Measurements.

• Business Risk Assessments.

The AICPA's website contains additional information on the history and development of assurance services at **www.aicpa.org**.

What Are the Relevant Standards?

104.10 *Assurance services* is an economic concept, not a regulatory one. No new standards were developed or recommended—all of the assurance services can be provided using existing standards. Just as many existing services can be structured as either attestation, consulting, or neither, so can new assurance services. Nonetheless, many practitioners will structure the new services as consulting or agreed-upon procedures services.

104.11 Some services identified—such as Trust Services—follow the attestation model. Others, like performance measures, look more like consulting or a direct-reporting assurance service. Still others, such as eldercare services, combine aspects of all of these.

104.12 In general, if a service involves financial statements, practitioners should look to SASs or SSARSs. If it involves a written report on subject matter (or an assertion about the subject matter that is the responsibility of another party), practitioners should look to SSAEs. Whenever a service is not covered by any of those standards, many practitioners follow the consulting standards. Since not all other engagements are consulting services, that approach is not necessarily required. However, it is harmless since the consulting standards essentially reiterate ET 1.300.001, *General Standards Rule*, of the *Code of Professional Conduct*, and all practitioners are required to follow ET 1.300.001. (Section 102 describes the applicability of various standards in more detail.)

Why Is the AICPA Involved?

104.13 The AICPA's involvement is intended to expedite firms' entry into new service opportunities. Although firms can create and deliver new services on their own, the AICPA can help in creating criteria, markets, and delivery models.

104.14 **Establishing Criteria** It is easier to apply the attestation standards when measurement criteria have been established by the AICPA because criteria established by a body empowered by the AICPA Council are presumed to be *suitable* (as required by SSAE No. 10). Some potential service opportunities are hobbled because practitioners have no generally accepted measurement criteria (for example, GAAP) to use in the engagement. When needed, the AICPA expects to create measurement criteria that all practitioners can use, and ASEC has been given the authority to establish those criteria. For example, the AICPA has created measurement criteria to support the Trust Services, as discussed in Chapter 13.

104.15 **Creating a Market** By identifying specific assurance services, the AICPA can help create a market for the services. If CPAs provide similar services across the country, those services can be identified in users' minds as *CPA services*. Potential clients can be made aware of the services' availability and, when needs arise, they will think of CPAs as the natural providers. By focusing on specific services, the AICPA hopes to help create a critical mass of practitioners offering those services and new markets for the profession. For example, the AICPA hopes to help create a market for WebTrust by raising public awareness of the service and its benefits through advertising and public relations. Similarly, the creation of an accreditation for eldercare services is intended to help create a market for that service.

104.16 **Identifying Specific Opportunities** The concept of assurance services is intended as a springboard for firms to identify potential service opportunities. Practitioners need not wait for the AICPA; they can create their own services. The AICPA website contains additional information regarding assurance services at **www.aicpa.org**.

Why Should I Expand My Practice through Assurance Services?

104.17 Many firms have already determined the need to broaden their offerings beyond traditional accounting and auditing services. As a purchaser of this *Guide*, you are probably part of this group. The reasons for providing nontraditional services vary by firm, but often are related to the inability to rely on traditional services for growth. Those services are under increasing competitive pressure because of:

- *Reduced Demand for High-end Services.* Many users who, in the past, created the demand for audits—such as small-business lenders—no longer require audits. Those that did may be satisfied with reviews or compilations. Because this trend is a result of changes in users' own competitive situations, it is unlikely to change in the near future.

- *Price Competition.* Over the last decade, CPA firms have become increasingly price competitive, creating pressure on margins for traditional services.

- *New Forms of Competition.* Non-CPA competitors, such as computer service organizations, financial service organizations, and other information providers are providing basic accounting or tax services for little or no charge to create markets for other services they provide. In some cases, these competitors are not bound by standards or limitations imposed on CPAs. (Of course, the CPA's right to offer some future services may be contested by nonregulated competitors.) In addition, increasingly sophisticated and inexpensive software has made it economical for clients to do some of this work themselves.

104.18 Many clients have expressed needs for additional analysis and interpretation to help them compete in their markets or tell them more about themselves than they already know. CPAs can add value by providing this type of information. An important opportunity for CPAs who serve small businesses is developing information to measure meaningful data that is not captured in financial reporting. For example, measuring performance against nonfinancial goals is a natural outgrowth of a financial statement service.

104.19 The primary attributes that CPAs can use to provide new services to existing clients are their knowledge of their clients' businesses (and business in general) and their skills in testing and reporting on results. These same strengths can also be helpful in providing new types of

services to new clients.

Why I Might Not Offer Assurance Services

104.20 Not all opportunities fit the profile of every firm. For example, technology-dependent services may require a substantial investment in technology and training. Firms that have a high degree of leverage (that is, a high number of staff per partner) might not find highly customized services attractive. Instead, they might prefer standardized services that lower-level staff can provide with less supervision.

104.21 New opportunities also carry new risks. There is a possibility that clients will not find offerings attractive enough to pay for the costs of delivering the services. There is also a possibility that the result will not be satisfactory to users—a greater risk when the deliverable is not standardized or well known, which might also hurt an existing relationship to provide traditional services. And, as always, there are litigation risks.

104.22 Deciding whether to provide a new type of service involves balancing potential costs and benefits. The benefits are based on the potential market size and overall attractiveness (for example, profitability, growth, and consistency with the firm's strategy). As discussed in the following paragraph, costs might involve initial inefficiencies, costs to acquire specific competencies, and costs associated with potential risks. The firm also has to consider whether it has a competitive advantage in entering the market. If not, it should not try to compete.

104.23 **What Costs Are Involved?** There are four major categories of new costs involved in providing new assurance services:

a. *Staff Training.* As services diverge from those traditionally offered and those traditionally taught in universities, there may be additional training costs. This might involve training existing staff in new functions or hiring staff with new skills. In addition, there are often ongoing costs in keeping these skills up to date, which may involve seeking out new forms of continuing education.

b. *Inefficiencies.* It is likely that a new service will not be highly profitable the first time it is performed. However, as the firm performs the service more often, it becomes more efficient and the cost to deliver it decreases. Accordingly, lack of profitability in the short-term may be offset by increased profitability down the road if the firm expects to provide the service frequently in the future.

c. *Opportunity Costs.* A firm operates within economic restraints. If a firm allocates the resources to develop and deliver a new service, it forgoes using those resources to pursue other opportunities. This is why it can be important to focus on services in which the firm has a competitive advantage.

d. *Potential Litigation Costs.* No service is free from litigation risk. However, the risk need not be unbearable. Although the risk cannot be completely eliminated, it can be reduced by taking actions such as the following:

(1) Including cautionary language in the CPA's report or other output.

(2) Identifying and contracting with the users of the service. This approach can both limit the claims to an agreed-upon level and limit the exposure to lawsuits from other parties.

(3) Using loss-limiting clauses in engagement letters.

(4) Using alternative dispute resolution techniques.

104.24 Many of the engagement letters in this *Guide* provide examples or discuss cautionary language and loss-limiting clauses. Examples are provided in the engagement letters for eldercare services in Chapter 14, risk assessment services in Chapter 15, and performance measurement services in Chapter 3.

Additional Guidance and Practice Aids

104.25 The AICPA's intention was to identify specific new services and define them clearly enough for practitioners to understand and determine whether to offer them. To that end, the AICPA created an alliance with Practitioners Publishing Company to develop practice aids for the delivery of the following services of particular value to small practitioners:

- Eldercare services.

- Business risk assessment services.

- Performance measurement services.

104.26 As discussed beginning in paragraph 101.27, in-depth discussions on those services, as well as related practice aids, are presented in Chapters 3, 14, and 15 of this *Guide*, respectively. In addition, a more detailed discussion of *Trust Services Principles and Criteria* is presented in Chapter 13.

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[25] Throughout this *Guide*, the authors refer to these services simply as eldercare services.

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105 Marketing New Services

105.1 Ultimately, CPAs succeed by satisfying their existing clients and attracting new ones. The key to this is a constant focus on innovation and marketing. Innovation is the application of customized nontraditional services to help clients solve their problems. Successful marketing requires understanding client goals and problems and adapting the new services to meet their needs. When marketing is successful, the client envisions the CPA as a helper, an advisor, and a supporter.

105.2 Research done by the AICPA's Elliot Committee indicated that the most common source of nontraditional services is direct, unsolicited requests from clients. Practitioners can, however, actively market nontraditional services, often at higher margins than traditional accounting, auditing, or tax work. To do so requires a planned approach.

105.3 Practitioners can provide nontraditional services to existing clients or they can identify new clients. Generally, it is far more efficient to target existing clients because:

- The existing relationship provides an effective communications link between the practitioner and the client decision-maker.

- There is already an atmosphere of trust and confidence.

- It is generally unnecessary to compete on price if the practitioner has already proven that he or she provides value.

- The time and cost to acquire new clients are generally expected to be several times higher than that necessary to generate the same level of new fees from existing clients.

105.4 This section focuses primarily on identifying additional services for existing clients. Nonetheless, many opportunities exist for creating niches that allow practitioners to amass new clients primarily for the nontraditional services they can provide. Exhibit 1-1 provides some suggestions for identifying and providing new services to existing clients. It is based on an Elliott Committee study, “What Do Clients Want?”

Exhibit 1-1

11 Suggestions for Providing Additional Services to Existing Clients

- Build opportunities for enhanced services into checklists used in standard accounting, auditing, and tax services.

- Consider offering a small service (such as review of a tax return the client prepares) *gratis* as a way to demonstrate genuine caring and to build the relationship.

- Monitor the effectiveness of relationships with quality assurance interviews conducted by someone unconnected with the firm or by a senior-level person not involved with the client. Or, meet periodically with clients to discuss the relationship and identify unmet needs.

- Encourage partners and staff to get out of the office. They should try to spend time at the client's office to build the relationship and gain a

better understanding of the business. It is ironic that many firms' billing routines discourage a practice that clients value highly.

• Respond quickly to relationship problems when they surface. Be willing to change the partner assigned to a client if the relationship isn't working. Many firms' cultures are not readily amenable to such changes.

• Communicate to all employees, from receptionists to senior partners, that they have a responsibility to market the firm's services. Then train them so they are aware of the spectrum of services the firm offers.

• Develop a system for capturing and following up opportunities identified during audits and tax season.

• Consider training experiences that help CPAs develop and practice people skills. Practitioners should recognize that identifying and providing service opportunities is based on relationship building. Thus, training should strengthen interviewing, coaching, presentation, selling, and other interpersonal skills. Provide mentoring by partners who are experienced and comfortable in these areas.

• Invite current and prospective clients to an open house to introduce the firm's key players and services.

• Develop a seminar (perhaps industry-specific) and offer it to current and prospective clients.

• Conduct research among clients to discover ways to improve current services and generate ideas for new services.

[SOURCE: “What Do Clients Want?” by Don M. Pallais and Ellen L. Good, *Journal of Accountancy*, December 1996.]

105.5 The keys to establishing a basis to expand an existing traditional relationship to encompass nontraditional services are:

• Identifying clients who are prone to buying additional services.

• Positioning the practitioner as a trusted business advisor.

• Identifying services that the client will perceive as valuable.

Identifying Clients

105.6 To profit from new services, the CPA must meet the client's needs in a way that the competition cannot. This approach is ultimately more rewarding than offering virtually the same services everyone else offers and competing on price or proximity. To do this, the CPA should meet with his or her best clients to find out how best to match his or her capabilities to the client's needs. Identification of, and research on, the practitioner's ideal clients can yield important information on which to build a marketing strategy.

105.7 Not all clients are amenable to new, nontraditional services. The ones that are more likely to buy nontraditional services tend to have certain characteristics in common. By identifying clients with the requisite characteristics, the practitioner can focus on those clients.

105.8 **General Characteristics** The most likely buyers of nontraditional services are clients with specific, immediate needs. For example, a client with a regulatory problem might need a special report; one that is considering a merger might want an analysis of its potential partner's operations. Or, a client that recently discovered embezzlement in the company might want a review of its internal control. However, even when there are no unusual needs, there are often opportunities to provide nontraditional services to existing clients.

105.9 Clients that are more likely to use their CPAs for nontraditional services generally have the following characteristics. The client:

• *Values What the Practitioner Provides.* A good prospect is a client who sees the CPA's contribution as a boon, rather than merely a cost of doing business. This perception often results from the relationship's evolution over time. If the client sees the practitioner as a trusted business advisor, and there is good chemistry between client and practitioner, the client is more likely to entrust the CPA with a nontraditional service.

• *Allows the CPA Firm Access to Key Decision-makers and Information.* The client that truly values what the practitioner provides allows the CPA direct access to individuals and information crucial to successfully completing the engagement. If the client limits the practitioner's access, it becomes less likely that the CPA will have all the information necessary to provide a service that provides optimum value.

• *Wants to Grow the Business.* A client planning for the future is more likely to need ongoing nontraditional services than one that is looking to ride existing cash flow to retirement. The former has to be concerned with adapting to new markets, for example, while the latter does not.

• *Is Receptive to New Ideas, Open-minded.* Clients who believe they already know everything are unlikely to engage the practitioner to tell them something new. On the other hand, clients who are willing to do things differently, think ahead, ask questions, and have a broad perspective, are generally more willing to have the practitioner undertake an engagement to provide new or better information or improve the client's operations.

105.10 The practitioner scanning his or her client list can identify which clients meet this profile and, thus, those who are good leads for potential new services. In fact, a quick way to identify such clients might simply be to look at which clients have received nontraditional services in the past. Those that have may be more open to additional services.

105.11 **Specialized Industry Experience** Detailed knowledge of an industry or a local market can provide an impetus for generating engagements. For example, if the practitioner knows more about real estate developers than others in the local market, he or she can design engagements that provide more value to real estate developers than the competition. As he or she gains experience in delivering these services, the learning curve can cut delivery costs and improve the quality of the service to provide a substantial competitive advantage and protect against competition, while establishing a reputation for unusual value among real estate developers.

105.12 **Ideal Client Characteristics** One strategic approach that some firms use is to concentrate on the firm's ideal client. In some cases, the ideal client might be one of a certain size (such as one with sales between $1 million and $5 million), industry (such as automotive dealers, parts, and services), location (in a particular part of the local market), or with other characteristics (family run, likely to go public in the near future, subject to certain regulations). By focusing on a particular client profile, the practitioner can design specific services to provide the most value to the most clients who fit that profile.

105.13 As the practitioner demonstrates a beneficial expertise, clients who fit the profile are often willing to pay more because they perceive greater value. In addition, the CPA with a reputation for providing special value to this type of client can attract other, similar, clients. Finally, with experience in providing a targeted service, the costs to provide the service tend to decrease. When this is done successfully, the result is increased revenues, increased margins on each engagement, and a substantial advantage over potential competitors.

Practitioner as Trusted Business Advisor

105.14 Clients generally have complete confidence in their CPAs' ability to deliver accounting, auditing, and tax work. But they might be reluctant to try services that do not fall within those parameters. However, the client who sees the CPA as a trusted business advisor may be more willing to entrust many types of nontraditional engagements to the practitioner.

105.15 Clients relate to people, not firms. Thus, it is critical that the individual practitioner build up a relationship with the client that establishes a foundation of trust. Although technical expertise is important in providing services, it is not always a critical factor in marketing nontraditional engagements to existing clients. Existing clients are generally convinced of the practitioner's technical ability. They need to believe that the practitioner understands their individual problems and can provide valuable information to help solve them. In many cases, the practitioner is not competing against another firm for the work; the practitioner is competing against the client's inclination to do nothing. Thus, the practitioner's image as a trusted business advisor—a resource that can solve the client's problems—is crucial.

105.16 There are certain traits clients identify with a trusted business advisor. They fall into the following three general categories: client interaction, knowledge and skills, and personal characteristics.

105.17 **Client Interaction** Clients identify the following factors as critical to considering their CPAs to be trusted business advisors:

• *Accessibility.* Clients want to know that they can reach the practitioner whenever a problem comes up, which might not be during regular business hours. They also like to see the practitioner on their premises so that the practitioner can see how the business actually operates. It is important to take the time to understand the client and its business.

• *Dependability.* The practitioner should follow through on what he or she promises.

• *Fastidiousness.* CPAs are generally known as detail-oriented people. A CPA who is sloppy about details loses credibility to provide both traditional and nontraditional services.

• *Innovation.* A trusted business advisor offers more than cookbook solutions to the client's problems. He or she develops innovative approaches based on the client's needs.

105.18 **Knowledge and Skills** A successful business advisor brings with him or her:

• *Knowledge of the Client's Business.* The practitioner should understand the industry in which the client operates. More importantly, however, the practitioner should understand the client's philosophy and goals. This can only be accomplished by spending time with the client.

• *General Business Knowledge.* The practitioner needs a broad business perspective in which to consider the client's operations and challenges. Knowledge of accounting and auditing is a useful lens with which to view business problems, but it is not a substitute for knowledge of current business issues and trends.

• *Knowledge of Other Clients.* The practitioner who has seen other clients deal with problems can bring a broad range of knowledge to bear in helping the client deal with specific issues. Of course, the practitioner should keep in mind the confidentiality requirements in the AICPA *Code of Professional Conduct* when applying this knowledge.

105.19 **Personal Characteristics** Clients indicate that their trusted business advisors generally were:

• Willing to take chances.

• Proactive.

• Caring.

• Good listeners.

• Extroverted.

Identifying Potential Services

105.20 **Identifying Needs** Clients generally want relevant and reliable information on which to base decisions relating to the accomplishment of client goals. It is critical, then, to understand both the client's goals and the barriers that keep the client from accomplishing them.

105.21 The key to identifying potential services is understanding client needs. There are two aspects of the client's needs to consider: (a) the

client's goals and how they can be achieved and (b) the client's fears and how they can be overcome. Both issues provide opportunities for nontraditional services. In either case, the client needs information to assess where it is and how to achieve its goal. Sometimes, providing the information will be enough to meet the client's needs. In other cases, the client might need a new system to improve its operations, regular monitoring of its position, or information (or an examination, review, or application of agreed-upon procedures on the information) to convince third parties about the attractiveness of dealing with the client. The practitioner can provide nontraditional services in response to any of these needs.

105.22 Understanding client needs also comes from listening to clients. It is critical to ask questions—and to listen to the answers. In their zeal to offer help to their clients, many professionals start to answer questions and solve problems right away. In many cases, the concern communicated by the client is only a symptom, and further probing and questioning might yield more insight that would allow the practitioner to address the real issues underlying the symptoms.

105.23 Clients make decisions based on information. The information might be financial or nonfinancial, relate to data or systems, or come from internal or external sources. The information clients actually use is often not directly relevant to their problems or not reliable. But they use it because better information has not been developed or because they have not linked their decision needs with the range of available information. Assisting clients to identify information needs and then finding or developing the information can be a high-value service. A practice aid that can be used to initiate such a dialog is presented in Exhibit 1-2. This checklist can be used in any formal or informal client interaction. It can be used in connection with a service review meeting, during a regular accounting or auditing service, or at an informal get-together, such as lunch. It is best to interview the client in person. It is also best to interview client personnel at the highest levels, such as the owner/manager or president, to ensure that the client is truly committed to the goals identified and the efforts to accomplish them. After accumulating relevant information, the CPA should step back to digest it before coming back to the client with a service proposal.

Exhibit 1-2

Questions to Identify New Service Opportunities

Information for Decision Making

What important business decisions keep you awake at night?

- For each type of decision:

  - What kind of information is most helpful to you in making the decision?

  - Who provides the information?

  - Is the information adequate, or do you feel you are flying blind?

  - How do you know if the information is accurate?

  - Is the information useful in the format in which you get it?

  - What other information would be helpful that you currently cannot or do not get?

Information about Operations

- Is the information you need about operations readily, regularly, and quickly available?

- Is the information adequate for:

•• Comparison against prior periods?

•• Measurement against goals and benchmarks?

•• Comparison with competitors?

• Do you need information from outsiders, such as customers or suppliers?

•• Can you easily obtain such information?

•• Is the information reliable?

Strategic Information

• What information do you need about:

•• Relationships (for example, suppliers, customers, partners, labor)?

•• Outputs (for example, product quality, customer satisfaction)?

•• Markets (for example, competitors, market share, customer preferences, technologies)?

• How do you obtain such information?

• How do you know if it is accurate?

• Do you find it useful?

• What would make the information more useful or valuable to you?

[SOURCE: Adapted from “Identifying New Service Opportunities,” by Don M. Pallais, *Journal of Accountancy*, July 1996.]

105.24 To identify potential services, firms need to be proactive rather than waiting for clients to come to them with problems. A good way to identify unmet needs is talking to clients while performing other services. (This is best done at the client's place of business.) Regular communications with clients can help the practitioner better understand their needs and expectations. Conducting interviews with clients can

also be a good way to monitor the effectiveness of the relationship. The interviews might be conducted by someone not related to the firm or by senior-level firm personnel not involved with the client. Another approach is to conduct a discussion group with clients to discover ways to improve current services and generate ideas for new ones.

105.25 The practitioner can improve marketing to existing clients by implementing policies to ensure that the staff considers the needs of each client during each engagement. It is not uncommon for firms to establish elaborate policies and incentive systems for acquiring new clients but not to provide similar support for staff to acquire new engagements for existing clients that might be more profitable. Some approaches to identifying potential engagements include:

- Completing the questions like those shown in Exhibit 1-2 at least annually.

- Meeting with clients regularly, for example, annually, for a review of the relationship and the client's needs.

- Making sure everyone in the firm is aware of the firm's capabilities and the services it provides.

- Making an effort to understand the client's business and the risks it faces. Bring the client into the CPA's office to explain to the practitioner's staff where the client's industry is going. Accompany the client to its industry's conferences or seminars. Offer to attend a client's internal meeting (for free) to serve as a resource and learn about issues it faces.

- Create a method for identifying and following up opportunities identified during recurring accounting, auditing, or tax engagements.

- Create a panel of ideal clients to help you identify potential services, gauge their attractiveness, and improve them.

105.26 While the CPA typically deals with the CEO and CFO of a client, many opportunities can arise from talking to others in the organization with information needs. For example, production personnel might need benchmarking data that is not created in the financial reporting system; marketing personnel might need to be able to demonstrate quality to the entity's customers; human resources might want information on compliance with company policies.

105.27 Frequently, one of the best ways of determining how the CPA can satisfy the client's needs is to understand the client's concerns. Exhibit 1-3 presents a listing of concerns that are common to many clients.

Exhibit 1-3

Common Client Concerns

Markets

- Understanding and retaining customers

- Ability to grow in the future

- Identifying and defending against major competitors

- Understanding and protecting competitive advantage

- Demonstrating advantages (for example, product quality) to potential customers

- Understanding and dealing with innovations affecting the industry or market now and in the near future
- Determining relative profitability of certain classes of sales or customers
- Collectibility of receivables; value of assets
- Effectiveness of marketing programs
- Adequacy of client satisfaction levels

Suppliers

- Quality of raw materials
- Dependability of suppliers (financial, operational, logistical issues)
- Value for the price paid; whether better deals are available

Internal processes

- Efficiency of processes
- Reliability of processes
- Employee satisfaction
- Recruiting, training, and retaining quality employees
- Succession or continuity planning

Regulation

- Tax issues
- Compliance with industry or local regulations
- Legal risks (for example, environmental, human resource, product liability concerns)
- Effect of future legislation

Capital sources

- Adequacy for future needs

- Appropriateness of capital cost

- Ability to reduce the cost of capital by providing additional information to suppliers

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105.28 **Identifying the Benefits of the Service** The benefits of professional services to the client are often intangible. In many cases, the value is not obvious. The best way to demonstrate value is to highlight a tangible benefit. It should be clear how the service is expected to benefit to the client. In describing the potential benefits, the practitioner should focus on the client's needs, rather than on his or her expertise. The benefits should be described in simple, direct terms, bearing directly on the client's concerns. It is often helpful to describe previous successful engagements in similar circumstances. However, the description of benefits should not unrealistically raise the client's expectations.

105.29 Reports and analyses preferably should be provided quickly at the end of an engagement. Providing more than the client expected is a way to increase their appreciation of the service rendered. The most tangible benefit is to provide information that the client did not have before but now cannot do without.

105.30 A client might have trouble envisioning the service, its results, or how it can help meet the client's needs. To overcome this, it is helpful to have a prototype to present to the client. For example, for a proposed performance measurement engagement, it might be useful to show the client the types of reports that can be provided. The reports might be in different formats, such as charts, graphs, or a combination of formats. The client can then pick the presentation that is most useful (not everyone thinks the same way or finds the same information formats most effective). This allows the client to have a say in customizing the output and increases satisfaction with the service.

105.31 The practitioner might package the various services provided to make the combination more attractive. Packaging might reduce the cost of the service by standardizing it. It also makes it easier for the client to buy the service. For example, the practitioner who compiles monthly financial statements might include graphs showing the trends for critical performance measures along with the client's goals, analyses of unexpected fluctuations, and the general trend indicated for the future based on recent performance. Or, the data might include a comparison of the client's results to industry data, such as benchmarks and trends.

105.32 **Pricing** Pricing the service should preferably take into account the value provided. *PPC's Guide to Managing an Accounting Practice* describes several pricing methods other than standard hourly rates times hours. Among them are:

- Fixed fees.

- Variable hourly rates.

- Fees for each report issued.

- Value billing.

- Contingent fees (when permitted by the AICPA *Code of Professional Conduct* and local accountancy law).

105.33 To overcome initial resistance to a new service, the practitioner might offer a portion of the service for free. Or the practitioner could offer a money-back guarantee if the client is not satisfied that the service was valuable. If the client is not totally satisfied, some practitioners allow the client to pay whatever the client thought the engagement was worth, rather than simply writing off the bill. Such an offer sends the message to clients that the practitioner is confident of the value he or she provides.

105.34 **Feedback** It is important to get client feedback to assess whether the practitioner has adequately met the client's needs. This feedback helps in refining the service, keeping clients satisfied, and possibly identifying the need for additional services. The results of the customer feedback should be communicated to firm personnel to serve as the basis for improving service delivery. The results can also be summarized and used to demonstrate quality to potential future clients considering similar services.

105.35 It is best to interview clients in person or by telephone, rather than sending them a survey, because they are most likely to be candid and forthcoming in such a situation. Preferably, someone unconnected with the firm or a senior-level firm member not involved in the engagement should conduct the interview. Exhibit 1-4 provides a sample of an interview guide that could be used for this purpose. When it is impossible to conduct an interview, the practitioner can send surveys to clients at the conclusion of engagements. The survey can allow spaces for responses, or a numerical scale can be developed to allow quantitative summarization and reporting. However, this approach might be less effective because people are generally not as forthcoming or detailed in a written survey. Again, though, it is preferable that the survey be returned directly to someone independent of the engagement.

Exhibit 1-4

Interview Guide

Hello, this is _[Name]_ calling on behalf of _[Name of Firm]_. The firm has instituted a quality assurance program and, as part of it, we survey our clients to find out whether they are satisfied with our professional services. This survey will take about 10 or 15 minutes. Is this a good time to talk, or may I schedule a time that would be more convenient?

1. What did you expect from our firm?

2. Did we deliver what we promised or what you expected? Less? More?

3. Were the right people assigned to the engagement and accessible to you when you needed them?

4. Did we appropriately anticipate your needs and offer innovative ideas?

5. Did the staff understand your business adequately?

6. Were you adequately informed of our progress during the engagement?

7. Did the deliverable (e.g., report) meet your needs?

8. Was the deliverable (e.g., report) easy to understand and use?

9. Was the fee for the engagement fair?

10. How could this service be improved in the future?

11. Would you use us again for a similar engagement? Other engagements?

12. Would you recommend us to others?

105.36 Some firms send thank-you letters once the survey has been completed. Others have the engagement partner or the managing partner call to thank the participant and follow up on any problem areas.

Obtaining New Clients

105.37 While focusing on the needs of ideal existing clients can increase revenue and margins on those clients, the exercise can also help the practitioner acquire new clients. Specialized knowledge and skills honed in delivering services to the practitioner's ideal clients can attract other clients with similar needs. This can be accomplished through:

- Speaking to audiences of clients similar to the practitioner's ideal client on topics that emphasize the relevant expertise.

- Writing for publications that the ideal client reads.

- Referrals from existing clients.

105.38 When speaking or writing, it is most effective to use real-life examples that illustrate observations in the relevant area of expertise. Potential clients can see tangible benefits to the CPA's services. But remember: the purpose of presentations is to generate leads, not to sell. Thus, the practitioner should avoid hard-sell approaches.

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