CHAPTER 20

Additional Assurance Services: Other Information

Review Questions

20–1 Assurance services are independent professional services that improve the quality of information, or its context for decision makers; attestation services are those assurance services that involve issuing 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. Assurance services may go beyond attestation services in that they may involve analyzing data or placing it in a form to facilitate decision making.

20–2 The statement is incorrect. While it is correct that all attest services are assurance services, some assurance services are not attest services (e.g., some PrimePlus/ElderCare engagements).

20–3 Assurance services developed as a natural extension of the audit function. Management has recognized that contracting costs may be reduced in many situations by providing users access to information that is certified as to its reliability. Developments in information technology also have fueled the demand for assurance services as users can now have instantaneous access to a broad range of "online" information that may be customized to their needs.

20–4 No. While attestation engagements involve a written report, not all assurance services result in a written report as any reasonable form of communication is acceptable.

20–5 The three types of attestation engagements outlined in the attestation standards are:

(1) **Examination**—An examination is designed to provide the highest level of assurance that CPAs provide—the same level as an audit of financial statements. When performing an examination, CPAs select procedures to gather sufficient evidence to allow the issuance of a report with a positive opinion on whether the subject matter being examined are presented in accordance with the selected criteria. Sufficient evidence has been obtained when attestation risk is driven to a low level.

(2) **Review**—A review involves performing limited procedures, such as inquiries and analytical procedures. In performing a review, the CPAs gather sufficient evidence to drive attestation risk to a moderate level.

(3) **Agreed-upon procedures**—An agreed-upon procedures engagement involves performing procedures that were agreed-upon with specified users of the report. Reports on agreed-upon procedures are restricted use reports in that they are intended only for those specified users.
20–6 Agreed-upon procedures engagements result in **restricted use reports**, whereas examinations and reviews ordinarily result in **general use reports**. (However, nothing in the attestation standards prohibits CPAs from restricting either an examination or a review report.)

20–7 In an attestation engagement the practitioners report either directly on the subject matter or on an assertion about the subject matter. The subject matter of an attestation engagement may take many forms, including:

- Historical or prospective performance or condition.
- Physical characteristics.
- Historical events.
- Analyses.
- Systems or processes.
- Behavior.

If the practitioner is reporting on an assertion about the subject matter, that written assertion is presented with the subject matter or in the practitioner's report.

20–8 Suitable criteria are criteria used in preparing information that are objective and permit reasonably consistent measurement. Criteria are ordinarily suitable when they are developed by regulatory agencies or other bodies composed of experts that use due process, including exposing the proposed criteria for public comment. For example, in the case of a financial forecast, the AICPA has developed such suitable criteria. In financial reporting, GAAP are in essence a set of suitable criteria but are referred to as a **financial reporting framework**.

20–9 Attestation risk is the risk that the practitioner will unknowingly fail to appropriately modify their report on subject matter that is materially misstated. Attestation risk consists of three components—hazardous risk, control risk, and detection risk. **Inherent risk** is the risk that the subject matter is materially misstated before considering internal control. **Control risk** is the risk that internal control will fail to prevent or detect a material misstatement of the subject matter, and **detection risk** is the risk that the practitioners’ procedures will fail to detect a material misstatement of the subject matter. In an attestation engagement, the practitioners assess inherent and control risks and design procedures to restrict detection risk to the appropriate level.

20–10 The statement is correct. A material departure from the suitable criteria during an examination will result in a qualified or adverse opinion.

20–11 XBRL (eXtensible Business Reporting Language), is an international information format designed specifically for business information. It assigns all individual disclosure items within business reports unique electronically readable tags that are mapped to taxonomies. The AICPA’s XBRL Assurance Task Force is in the process of developing guidance that will assist CPAs in public practice who are requested to provide assurance on XBRL-related documents. The task force is currently focusing on:

- Developing practice guidance that will assist CPAs in applying existing standards to information reported in XBRL format;
- Recommending, where deemed necessary and appropriate, to the appropriate standard setting bodies changes to existing standards and/or the development of new standards; and
- Collaborating with key stakeholders, including the SEC, PCAOB, various AICPA groups, and others.
The statement is not valid. A financial projection presents expected results, given one or more hypothetical assumptions and its use is restricted to the party with whom the company is negotiating—for example, a bank that is considering loaning funds to the company to acquire additional inventory. A financial forecast presents the entity's expected financial position, results of operations, and cash flows, and is more appropriate than is a financial projection for inclusion in an annual report.

A report on an examination of a financial forecast includes:

- An identification of the forecasted financial statements.
- A statement that the examination was made in accordance with AICPA standards and a brief description of the nature of such an examination.
- The CPA's opinion on whether the forecasted financial statements are presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast.
- A warning that the prospective results may not be achieved.
- A statement that the CPA has no responsibility to update the report for events and circumstances occurring after the date of the report.

The two types of compliance services are:

1. Attesting to an entity's compliance with specified requirements of laws, regulations, rules, contracts, or grants, and
2. Attesting to the effectiveness of an entity's internal control over compliance with specified requirements.

CPAs may examine Management's Discussion and Analysis (MD&A) when they have (1) audited the most recent financial statement period to which the MD&A applies, and (2) the other financial statement periods have also been audited by them or by other auditors.

The practitioners' objectives in an examination of Management’s Discussion and Analysis are to provide assurance about whether:

1. The presentation includes, in all material respects, the required elements of the rules and regulations adopted by the SEC.
2. The historical financial amounts included in the presentation have been accurately derived, in all material respects, from the entity's financial statements.
3. The underlying information, determinations, estimates, and assumptions provide a reasonable basis for the disclosures contained in the presentation.

The principles that may be included in a Trust Services engagement are:

1. **Security.** The system (infrastructure, software, people, procedures, and data) is protected against unauthorized physical and logical access in conformity with the entity’s security processes.
2. **Availability.** The system is available for operation and use in conformity with the entity’s availability policies.
3. **Processing Integrity.** System processing is complete, accurate, timely, and authorized.
4. **Online Privacy.** Private information obtained as a result of electronic commerce is collected, used, disclosed, and retained in conformity with entity’s policies.
5. **Confidentiality.** Information designated as confidential is protected in conformity with the entity’s confidentiality policies.
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20–18 The purpose of a WebTrust engagement is essentially to provide assurance on electronic commerce systems. A WebTrust engagement is designed to provide assurance to individuals or organizations about the practices and controls of an entity that they are contracted with over the Internet. SysTrust engagements involve providing assurance on system controls. A SysTrust report assures individuals inside and outside of the company that a system is reliable when evaluated against the principles.

20–19 Several organizations provide services competing with WebTrust. The Better Business Bureau provides a BBBOnLine program with two different logos—a privacy seal and a reliability seal. Another program offered by TRUSTe provides assurance that customer information will be protected and not used for other purposes. Finally, the International Computer Security Association offers a program with certification of Web sites as using technology that protects customer data.

20–20

<table>
<thead>
<tr>
<th>Primary Purpose of Report</th>
<th>SOC 1</th>
<th>SOC 2</th>
<th>SOC 3</th>
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</thead>
<tbody>
<tr>
<td>Provide information to the auditor of a user entity’s financial statements about a service organization’s controls relevant to internal control over financial reporting.</td>
<td>Provide management of service organization, user entities and other specified entities information and opinion about controls on subject matter.</td>
<td>Provide interested parties information and opinion about controls on subject matter.</td>
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<tr>
<th>Intended Users of Report</th>
<th>SOC 1</th>
<th>SOC 2</th>
<th>SOC 3</th>
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<tr>
<td>User auditors</td>
<td>User and service organizations stakeholders such as Customers.</td>
<td>Anyone</td>
<td></td>
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<tr>
<td>Managers of service organization and of user.</td>
<td>Regulators.</td>
<td></td>
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<td></td>
<td>Business partners.</td>
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<td></td>
<td>Suppliers.</td>
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<td></td>
<td>Directors.</td>
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20–21 CPAs may provide examination or agreed-upon procedures engagements for SysTrust or WebTrust. A review level service is not allowed.

20–22 PrimePlus/ElderCare Services include financial services include goal setting, funding analysis, cost management and needs assessment and nonfinancial services such as interpersonal and relationship management, as well as interaction of service providers with the client. Figure 20.1 provides more detailed examples.

20–23 Assurance services that are currently under development by the AICPA include (only two required):

- XBRL, eXtensible Business Reporting Language, is an international information format designed specifically for business information. The AICPA’s XBRL Assurance Task Force is in the process of developing guidance that will assist CPAs in public practice who are requested to provide assurance on XBRL-related documents.
- **Health care performance measurement**—providing assurance about the effectiveness of health care services provided by health maintenance organizations (HMOs), hospitals, doctors, and other providers.

- **Continuous auditing**—providing assurance using a series of reports provided simultaneously or shortly after the related information is released.

**Questions Requiring Analysis**

### 20–24

**a.** Assurance services are independent professional services that improve the quality of information or its context for decision makers.

**b.** Assurance services are currently developing as a natural extension of the audit function. Management has recognized that contracting costs may be reduced in many situations by providing users access to information that is certified as to its reliability. In addition, developments in information technology have fueled the demand for assurance services as users can now have instantaneous access to a broad range of "online" information that is customized to their needs.

**c.** The *Statements of Standards for Attestation Engagements* govern the nature of attestation services performed by CPAs. Attestation services are restricted to those that involve issuing an examination, review, or agreed-upon procedures report on subject matter, or on an assertion about subject matter that is the responsibility of another party. Also, in an attestation engagement, the CPAs must evaluate the subject matter of the engagement against suitable criteria.

### 20–25

**a.** Examinations (referred to as audits for historical financial statements), reviews, and agreed-upon procedures engagements.

**b.**

*Examinations*—The practitioners select from all available procedures to gather sufficient evidence to reduce attestation risk to a low level.

*Review*—The practitioners perform limited procedures, such as inquiries and analytical procedures. If the results of those procedures indicate that information may be misstated, additional procedures are performed.

*Agreed-upon procedures engagements*—The practitioner performs those procedures that were agreed-upon with the specified users of the report. Those procedures may range from being very limited to being very comprehensive.

**c.** *Examinations*—A positive opinion on whether the information follows the established or stated criteria.

*Reviews*—Limited, also referred to as negative, assurance is provided. The report includes a statement such as "we are not aware of any material modifications that should be made in order for the information to be in conformity with the appropriate criteria."

*Agreed-upon procedures*—These reports result in a statement of findings.

**d.** Agreed-upon procedures engagements are never considered appropriate for general use; they are restricted for use only by the specified users who participated in determining the
procedures followed in the engagement. Examinations and reviews are ordinarily appropriate for general use, although nothing in the attestation standards prohibits restricting their use.

20–26  
a. The standards for an examination of a financial forecast are contained in the AICPA's *Guide for Prospective Financial Statements*. The practitioners must gather information that provides a basis for reporting whether (1) the forecast is presented in accordance with AICPA guidelines, and (2) the underlying assumptions provide a reasonable basis for the forecast.

In examining the forecast, the practitioners gather evidence relating to the client's procedures for preparation of the information, evaluate the underlying assumptions, test the mathematical accuracy of translating the assumptions into the forecast, and obtain a written representation letter from the client.

b. An examination report should include the following:

(1) An identification of the forecasted statements.
(2) A statement that the examination was in accordance with AICPA standards and a brief description of such an examination.
(3) The practitioner's opinion on whether the statements follow AICPA presentation guidelines and whether the underlying assumptions are reasonable.
(4) A warning that prospective results may not be achieved.
(5) A statement that the practitioner has no responsibility to update the report.

20–27  
During a *Trust Services* engagement, the CPAs report on one or more of the following principles:

- **Security.** The system is protected against unauthorized access (both physical and logical).
- **Availability.** The system is available for operation and use as committed or agreed upon.
- **Processing integrity.** System processing is complete, accurate, timely, and authorized.
- **Confidentiality.** Information designated as confidential is protected as committed or agreed upon.
- **Privacy.** Personal information is collected, used, retained, disclosed, and destroyed in conformity with the commitments in the entity’s privacy notice and with criteria set forth in generally accepted privacy principles issued by the AICPA and CICA.

20–28  
a. Criteria are needed for an attestation engagement because it is the criteria that serve as the standards or benchmarks that are used to evaluate the subject matter of the engagement. The client's information is measured against these standards. Without such standards there would be no basis for comparison.

b. Suitable criteria are objective and permit reasonably consistent measurements. Also, suitable criteria must be sufficiently complete such that no relevant factors are omitted that would affect a conclusion about the subject matter. Finally, suitable criteria should measure some characteristic of the subject matter that is relevant to a user's decision.

c. Criteria may be available to users in a variety of manners. If a regulatory agency or an expert body using due process developed the criteria, they are likely to be publicly available to users. Alternatively, the criteria may be made available to the users in the presentation of the subject matter, in the assertion, or in the practitioners' report.
Objective Questions

20–29 Multiple Choice Questions

a. (2) The second standard of reporting for attestation engagements requires that the report state the practitioner's conclusion about the subject matter, or an assertion about the subject matter, based on the criteria against which the subject matter was measured.

b. (4) The attestation standards relating to financial forecasts require that when several significant assumptions are not listed that an adverse opinion be issued.

c. (2) While an attestation report on MD&A does state that the presentation includes the required elements of the rules and regulations adopted by the SEC, it does not include an opinion that the presentation is in conformity with rules and regulations adopted by the SEC.

d. (2) A SysTrust report includes an opinion on management's assertion that the Web site meets one or more of the SysTrust principles.

e. (1) Unreasonable significant assumptions for a forecast result in an adverse opinion.

f. (4) The accounting profession is developing assurance services relating to XBRL (eXtensible Business Reporting Language), an international information format designed specifically for business information. XBRL assigns all individual disclosure items within business reports unique electronically readable tags that are mapped to taxonomies that are currently being developed by.

g. (1) PrimePlus/ElderCare services may be either financial or nonfinancial in nature.

h. (1) CPAs may report on compliance, effectiveness of internal control over compliance, or both.

i. (2) All attest services are also assurance services. Thus answer (2) is impossible—a service that is not an assurance service, but is an attest service.

j. (3) Suitable criteria are the criteria followed in the preparation of the subject matter. Accordingly, suitable criteria are not the subject matter.

k. (2) A compilation is not an attest engagement. No explicit assurance is provided in this type of engagement.

l. (4) Trust Services deal with the issues of security, availability, processing integrity, confidentiality and privacy.
### Client Need

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<thead>
<tr>
<th>Client Need</th>
<th>Type of Service</th>
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<tbody>
<tr>
<td>a. A computer manufacturing company wants to provide assurance about estimated future results to be included in the company’s annual report.</td>
<td>Attestation of prospective information</td>
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<td>b. A company that processes payroll for other companies wants to provide assurance on its internal control over financial reporting that will be useful to the auditors of the companies that use its services.</td>
<td>SOC 1</td>
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<td>c. A public company wants to provide its shareholders assurance about the narrative analysis of financial results provided in the company’s Form 10-K.</td>
<td>Attestation of MD&amp;A</td>
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<tr>
<td>d. A service organization wishes to provide a general-use report from its auditor on its processing integrity and confidentiality controls.</td>
<td>SOC 3</td>
</tr>
<tr>
<td>e. The relative of an institutionalized uncle wants a CPA firm to oversee the uncle’s financial affairs.</td>
<td>PrimePlus/ElderCare services</td>
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<td>f. A bank wants a CPA firm to confirm account receivables of a company that has pledged the receivables as collateral for a loan.</td>
<td>Agreed-upon procedures engagement</td>
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<tr>
<td>g. A service organization wishes to provide a restricted-use report from its auditor to regulators on its processing integrity and confidentiality controls.</td>
<td>SOC 2</td>
</tr>
<tr>
<td>h. A grocery store wants to provide the highest level of assurance that its prices are less than the prices of its competitors.</td>
<td>Other attestation service</td>
</tr>
</tbody>
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### Notes

- a. May provide; independence is not required.
- b. May not provide.
- c. May not provide.
- d. May provide; independence is required.
- e. May provide; independence is not required.

### Table

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<td>b.</td>
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<td>c.</td>
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<td>d.</td>
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<td>f.</td>
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Definitions

20–33 Definitions

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Problems

20–34 a. The Trust Service principles include:

(1) Security. The system (infrastructure, software, people, procedures, and data) is protected against unauthorized physical and logical access in conformity with the entity’s security processes.

(2) Availability. The system is available for operation and use in conformity with the entity’s availability policies.

(3) Processing Integrity. System processing is complete, accurate, timely, and authorized.

(4) Confidentiality. Information designated as confidential is protected as committed or agreed to.

(5) Online Privacy. Personal information is collected, used, retained, disclosed and destroyed in conformity with the commitments in the entity’s privacy notice and with criteria set forth in generally accepted privacy principles issued by the AICPA and CICA.

b. The Trust Service criteria include:

(1) Policies. The entity has defined and documented its policies relevant to the particular principle.

(2) Communications. The entity has communicated its defined policies to responsible parties and authorized users of the system.

(3) Procedures. The entity placed in operation procedures to achieve the objectives in accordance with its defined policies.

(4) Monitoring. The entity monitors the system and takes action to maintain compliance with its defined policies.

c. The criteria are used by the CPAs to evaluate whether the principle is being achieved.

d. The CPAs may be engaged to report on one or more of the principles.

20–35 a. The Attestation Standards provide guidance for an engagement such as one on customer satisfaction. They provide two types of general use services—examinations and reviews.

b. Suitable criteria are those that are objective and permit reasonably consistent measurements. In addition, the criteria must be sufficiently complete such that no relevant factors are omitted that would affect a conclusion about the subject matter. Finally, the criteria must measure some characteristic of the subject matter that is relevant to a user’s decision.
INDEPENDENT ACCOUNTANTS' REPORT

We have examined the accompanying Schedule of Customer Satisfaction Measures for the three years ended December 31, 20X4. This schedule is the responsibility of Grayson, Inc.'s management. Our responsibility is to express an opinion on this schedule based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the schedule and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Schedule of Customer Satisfaction Measures referred to above presents fairly, in all material respects, the levels of customer satisfaction for the three years ended December 31, 20X4, in conformity with the measurement and disclosure criteria set forth in Note 1.

Webster & Lowe, LLP
March 1, 20X5

NOTE TO INSTRUCTOR: If the CPAs believe that the criteria are not understandable by users other than management a paragraph must be added to the report restricting its use.

20–36

a. The subject matter of the engagement is the set of prices of the various items sold by Food Queen.

b. In an area in which no suitable criteria have been developed, the management of Food Queen, with concurrence of the practitioners, will need to attempt to develop them. Suitable criteria are those that are objective and permit reasonably consistent measurement. The criteria must be sufficiently complete such that no relevant factors are omitted that would affect a conclusion about the subject matter. Also, the criteria must measure some characteristics of the subject matter that is relevant to a user's decision.

Various approaches are possible—we will describe two. First, one approach would be to take a random sample of food prices and match that sample against the prices of competitor stores. Second, an effort could be made to describe a "reasonable customer," and to identify the nature of that customer's purchases. Using this second approach, a sample of prices would be taken of various categories of food (fruits, vegetables, meat, etc.) and the results would be weighted by that reasonable customer's average purchases of each type of food.

c. An assertion is a declaration about whether the subject matter is presented in accordance with certain criteria. In this situation the assertion would be that Food Queen had the lowest prices based on the suitable criteria that were used.

d. There are at least two issues, including: (1) whether the results of attestation engagements may be included in advertising claims, and (2) whether the criteria developed in this question are appropriate for "general use" rather than only for "restricted use." Concerning the first issue, nothing in the professional standards prohibits using such information for advertising
purposes. Because of difficulties such as those presented in the problem (e.g., simply not using the report if Food Queen's prices aren't the lowest) some CPA firms have not accepted attestation engagements that involve advertising claims.

Whether the criteria developed in response to this question would be appropriate for "general use" is a significant question. Criteria developed by specified parties such as management often will result in a restricted use attestation report. The text provides the example of criteria from a contract between two parties as one that might be restricted and therefore not appropriate for general use. In this case, however, it would seem quite possible to develop criteria that could be presented with the presentation in an understandable manner.

### INDEPENDENT ACCOUNTANTS' REPORT

We have examined the accompanying Schedule of Grocery Prices as of December 31, 20X1. This schedule is the responsibility of Grayson, Inc.'s management. Our responsibility is to express an opinion on this schedule based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the schedule and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Schedule of Grocery Prices referred to above presents fairly, in all material respects, the levels of grocery prices as of December 31, 20X1, in conformity with the measurement and disclosure criteria set forth in Note 1.

*Webster & Lowe, LLP*
January 15, 20X2

### NOTE 1 TO INSTRUCTOR

If the CPAs believe that the criteria are not understandable by users other than management a paragraph must be added to the report restricting its use.

### NOTE 2 TO INSTRUCTOR

This case is loosely constructed on the strategy used by a major grocery chain to move into the Phoenix market. In that case, a general use report was issued based on suitable criteria developed based on a weighted average of a reasonable family's purchases.

20–37 The answer to this question will vary depending upon when the Web site is accessed. As we go to press the following represent some of the guidance available:

- *Trust Services Principles and Criteria*—The principles and criteria for trust services.
- *Getting Started with Trust Services*—Details on how to begin offering the service.
- *The Need for Reliable Systems*—General guidance on systems.

Also, as we go to press, the only way we are able to access this information at [www.aicpa.org](http://www.aicpa.org) is through use of the search term “SysTrust.” It turns up a number of irrelevant documents in addition to the above.