A SYNTHESIS OF REPORTS THAT CPAs ISSUE

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Submitted by: John Miller (Chip) Clark, III

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Among other duties, the American Institute of Certified Public Accountants (AICPA) establishes standards to guide accountants and provide uniformity in the accounting profession. These standards, issued by bodies within the AICPA, guide accountants in performing work and in communicating the results of such work. As accountants provide an increasingly wider range of services, the profession must ensure that results are conveyed to users clearly and consistently. This study will analyze the broad reporting guidelines established by the standard-setting bodies of the AICPA and identify commonalties and anomalies found in the different reports issued by accountants. Based upon the findings, additional opportunities for uniformity among the reports will be suggested.

STANDARDS OF REPORTING

Accountants must issue reports uniquely related to the nature of the work performed. Depending upon the type of engagement, the accountant may be guided by Statements on Auditing Standards (SAS), Statements on Standards for Attestation Engagements (SSAE), or Statements on Standards for Accounting and Review Services (SSARS). Each of these authoritative guidelines are issued by different bodies of the AICPA and govern a variety of reports. Table 1 below illustrates the reports to analyzed and the standards which govern each.

TABLE 1

Reports Governed by Bodies of the AICPA

SAS	SSAE	SSARS
Audited Financial Statements	Prospective Financial Statements	Compiled Financial Statements
Audited Financial Statements for Use in Other Countries	Pro Forma Financial Statements	Reviewed Financial Statements
Condensed Financial Statements		Personal Financial Statements
Application of Agreed-Upon Procedures		
Financial Statements Prepared in Conformity with Other Comprehensive Basis of Accounting (OCBOA)		
Specified Elements, Accounts, or Items of a Financial Statement		
Compliance with Contractual Agreements or Regulatory Requirements		
Special Purpose Financial Statements		
Application of Accounting Principle		
Letters to Underwriters		
Internal Accounting Control		
Review of Interim Financial Statements		

STATEMENTS ON AUDITING STANDARDS

The Auditing Standards Board (ASB) issued Statements on Auditing Standards, the first authoritative guidelines to be addressed in this study. These published directives are intended to provide uniformity to services and reports related to audits or other thorough examinations of an entity and/or its financial statements. The Auditing Standards Board requires all reports governed by SAS (1) to state whether the financial statements are presented in accordance with generally accepted accounting principles (GAAP), (2) to

identify circumstances in which accounting principles have not been applied consistently from period to period, (3) to provide assurance that informative disclosures in the financial statements are adequate, and (4) to express an opinion on the financial statements as a whole.

The first standard of reporting requires the report to state whether the financial statements are presented in accordance with GAAP. Generally accepted accounting principles include the rules accepted by the accounting profession at the time and the methods of applying these rules. Though compliance with GAAP is only an opinion of the auditor, this framework is an effective standard for judging the presentation of financial position.

The second standard of reporting guides accountants to identify those circumstances in which accounting principles have not been consistently observed in the current period in relation to the preceding period. The objective of this consistency standard is to ensure comparability of financial statements among reporting periods. Whereas the first standard requires explicit statement of compliance with generally accepted accounting principles, consistency is implied in an unqualified report. Only inconsistencies must be expressly stated.

The third reporting standard of reporting provides that informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report. This standard relates to the form and content of the financial statements and accompanying notes. The accountant must present all disclosures required by generally accepted accounting principles and must rely heavily on management that all necessary information has been disclosed. Like the consistency standard, the disclosure requirement is implicit in a report, unless expressly stated otherwise.

The fourth standard of reporting issued by the ASB requires the accountant to express an opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be

expressed, the reasons therefore should be stated. In addition, this standard also requires the report to contain a clear-cut indication of the character of the auditor's work, and the degree of responsibility the auditor is taking. Each of these items should be expressly stated in order to prevent any misinterpretation concerning the financial information released with the report.

STATEMENTS ON STANDARDS FOR ATTESTATION ENGAGEMENTS

In addition to SAS issued by the ASB, the AICPA has issued Statements on Standards for Attestation Engagements (SSAE). As the demand for increased accounting services grows, these standards establish a framework for accountants to provide assurance on a variety of attest functions other that historical audits. The attestation standards are an extension of, and in no way supersede, the auditing standards. Like the auditing standards, SSAE include four standards of reporting. These standards require the accountant to identify the assertion and nature of work involved, to conclude on the assertion's compliance with stated criteria, to include any reservations about the engagement, and to restrict use of the related information to certain parties.

The first standard of reporting requires the report to identify the assertion being reported on and state the character of the engagement. This first attestation standard of reporting is comparable to the first auditing standard of reporting which states that the financial information is to be judged in the context of GAAP. The attestation standard is obviously much broader, permitting the accountant to insert the necessary criteria for the related attest function. The statement of the character of the attest engagement should include a description of the type and scope of work performed and the professional standards governing the engagement. Each of these items should be expressly stated in the report.

The second standard of reporting requires the accountant to conclude about whether the assertion is presented in conformity with the established or stated criteria against which

it was measured. The requirements under this standard are similar to those required by the fourth standard of reporting of the auditing standards, which requires the accountant to issue an opinion regarding the financial statements. In this case the accountant should state whether the presented assertions conform with established or stated criteria. In both situations, the accountant must consider the concept of materiality in applying the applicable standards. While auditing standards require the issuance of a positive opinion, attestation standards allow the accountant to issue either a positive opinion (when the engagement permits a high level of assurance) or a negative assurance (when the engagement reduces risk to only a moderate level).

The third standard of reporting requires the report to state all of the practitioner's reservations about the engagement and the presentation of the assertion. These reservations may include unresolved problems in complying with appropriate attestation standards or insecurities about the conformity of the presentation with the stated criteria. Like the auditing standards, these general attestation standards prohibit the accountant from issuing an unqualified conclusion if the engagement was not performed under prescribed procedures.

The fourth standard of reporting requires that reports on agreed-upon procedures contain a statement limiting its use to the parties who have agreed upon such criteria or procedures. Unlike auditing standards, which do not expressly restrict use of the financial information, this standard requires particular attestation reports to clearly indicate that they are intended solely for certain parties.

STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

Another standard-setting body of the AICPA to be considered is the Accounting and Review Services Committee, which governs the issuance of reports on compilations, reviews, and personal financial statements. Unlike other standard-setting bodies of the AICPA, the Accounting and Review Services Committee has not established broad

standards of reporting. The Statements on Standards for Accounting and Review Services (SSARS) do prescribe specific requirements for each type of report, and such requirements will be considered when the specific characteristics of each report are compared and contrasted.

The objectives of all reporting guidelines issued by various standard-setting bodies of the AICPA are to communicate useful information to report users and to prevent misinterpretations. Reporting guidelines seek to provide useful information by establishing a framework to judge the presentation of such information. This framework may be GAAP or some other established or stated attestation criteria. Similarly, reporting guidelines seek to prevent misinterpretations by clearly stating the responsibility that the accountant assumes and the amount of assurance provided by the engagement. Accountants provide the public with much financial information; however, such information is valuable only to the extent that it is reported effectively. This study will now focus on whether prescribed standards provide for clear, consistent reporting.

ANALYSIS OF REPORTS

In addition to the broad standards of reporting discussed above, the standard-setting bodies of the AICPA provide specific instructions as to elements to be included in each of the reports issued by accountants. In this study, all reports considered will be analyzed based on the following characteristics:

1. Heading
2. Addressee
3. Subject Matter
4. Responsibility
5. Standards
6. Nature of Engagement
7. Assurance
8. Completion of Report
9. Departure from the Standard Unqualified Opinion
10. Information Accompanying the Financial Statements
11. Other Reporting Issues

HEADING

The heading, if one appears, is the first item on a report issued by accountants. If a heading is required, the applicable standards expressly instruct the accountant to include the title "Independent Auditor's Report" at the top of the report. In other cases, no further guidance is provided, and the accountant must assume that no heading is required. Unfortunately, the standards are inconsistent concerning heading requirements. Only the ASB requires headings, and it does so for some, but not all, of the reports governed by the SAS. Reports requiring a title include the audit report, the audit report for use in other countries, the report on condensed financial statements, all special reports* , and the report on a review of interim financial statements. None of the reports governed by the SSAE and SSARS contain such headings.

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* Throughout this paper, "special reports" refer collectively to the following four reports:
1. Financial Statements Prepared in Conformity with OCBOA
2. Specified Elements, Accounts, or Items of a Financial Statement
3. Compliance with Contractual Agreements or Regulatory Requirements
4. Special Purpose Financial Statements

Based on these findings, the standards of the AICPA lack consistency. Appropriate standards require the accountant to be independent if he or she is to issue a report for any work performed other than compilations or preparation of personal financial statements. Consequently, an accountant performs many engagements for which independence is a criteria but whose reports do not so state.

ADDRESSEE

While the presence of an addressee is common to all issued reports, only three of the seventeen reports examined provide the accountant specific guidance as to whom to address the report. The reports on audits and interim reviews are to be addressed to either the company under audit, its board of directors, or its shareholders. Copies of letters to underwriters are accordingly addressed to the underwriter and to the client. The SAS, SSAE, and SSARS provide no guidance on addressing other reports. In such cases, the accountant must assume that the report is to be addressed to the body ordering the engagement.

SUBJECT MATTER

All standards of the AICPA require an opening sentence expressly stating the subject matter of the engagement. Such an introduction is common to all reports issued by accountants, and this uniformity allows readers of the report to quickly and easily discern the nature of the engagement.

RESPONSIBILITY

In order to reduce the likelihood of misinterpretation, reports issued by accountants should consistently convey the responsibilities assumed by management and by the accountant in relation to the engagement and the report. The standards governing the issuance of reports,

however, lack uniformity on the subject of responsibility. Table 2 below summarizes the communication of responsibilities in the reports.

TABLE 2

Responsibilities of Management and Accountant

TYPE OF REPORT	MANAGEMENT RESPONSIBILITY	ACCOUNTANT RESPONSIBILITY
1. Audit	Expressly stated	Expressly stated
2. Use in Other Countries	Expressly stated	Expressly stated
3. Condensed	Indirectly communicated by reference to audit report	Indirectly communicated by reference to audit report
4. Agreed-Upon Procedure	Not stated	Not stated
5. OCBOA	Expressly stated	Expressly stated
6. Specified Items, etc.	Expressly stated	Expressly stated
7. Compliance w/ Contract	Not stated	Not stated
8. Special Purpose Present.	Expressly stated	Expressly stated
9. Appl. of Acct. Principle	Expressly stated	Not stated
10. Letters to Underwriters	Indirectly communicated by reference to audit report	Indirectly communicated by reference to audit report
11. Internal Control	Expressly stated	Not stated
12. Review of Interims	Expressly stated	Not stated
13. Prospective	Not stated	Not stated
14. Pro Forma	Indirectly communicated by reference to audit report	Indirectly communicated by reference to audit report
15. Compilation	Not stated	Not stated
16. Review	Expressly stated	Not stated
17. Personal Financials	Not stated	Not stated

As Table 2 indicates, some reports require the accountant to explicitly state his or her responsibility and that of the company's management. In such cases, the report contains a sentence that the financial information presented is the responsibility of the

company's management, or, in the report on internal control, that responsibility for establishing and maintaining such a system rests with management. Subsequent to the statement regarding management responsibility, the report may inform the reader that the accountant's responsibility is to express an opinion, or some other level of assurance, on the financial information presented. Reports in which the accountant expresses a positive opinion cautiously convey the level of responsibility assumed by each party; however, many of the reports fail to mention the subject or only indirectly communicate responsibility through reference to the audit report, which treats the topic more clearly.

STANDARDS

The accountant must follow some set of prescribed standards for all engagements performed, and such standards should be communicated in the issued report. For increased benefit, the report should inform the reader of the requirements of such standards. The reader of the report may use such information to gauge the usefulness of the report and accompanying presentation. Table 3 below summarizes the standards followed for each type of engagement and the requirements of such standards.

TABLE 3

Requirements of Standards Followed

TYPE OF REPORT	STANDARDS FOLLOWED	REQUIREMENTS OF STANDARDS
1. Audit	GAAS	Expressly stated
2. Use in Other Countries	GAAS	Expressly stated
3. Condensed	Not stated / reference to audit report	Not stated / reference to audit report
4. Agreed-Upon Procedure	Not stated	Not stated
5. OCBOA	GAAS	Expressly stated
6. Specified Items, etc.	GAAS	Expressly stated
7. Compliance w/ Contract	GAAS and applicable regulatory agency requirements	Expressly stated
8. Special Purpose Present.	GAAS	Expressly stated
9. Appl. of Acct. Principle	Those established by the AICPA	Not stated
10. Letters to Underwriters	Not stated / reference to audit report	Not stated / reference to audit report
11. Internal Control	Those established by AICPA	Not stated
12. Review of Interims	Those established by AICPA	Not stated
13. Prospective	Those established by AICPA	Not stated
14. Pro Forma	Those established by AICPA	Not stated
15. Compilation	Those established by AICPA	Not stated
16. Review	Those established by AICPA	Not stated
17. Personal Financials	Not stated	Not stated

As Table 3 indicates, audits and other special engagements require the accountant to inform readers that he or she followed generally accepted auditing standards (GAAS) in performing the work. In all engagements governed by GAAS, standards consistently dictate that the accountant provide further explanation. Accordingly, GAAS require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The remaining reports governed by

SAS, and all of those governed by SSAE and SSARS, provide less specific guidance, if any. If GAAS are not followed, the reports only vaguely mention those standards established by the American Institute of Certified Public Accountants, and the requirements of such standards are not communicated.

NATURE OF ENGAGEMENT

An explanation of the nature of the engagement serves a purpose similar to the description of the standards by providing useful information to the reader of the report. Unfortunately, standards do not consistently require the accountant to relate the nature of the work performed. Statements on Auditing Standards require the most detailed descriptions; however, they do not require descriptions on all of the reports they govern. As might be expected, reports generally devote less wording to the nature of the work as the engagement becomes less intensive and provides less assurance. All engagements performed in accordance with GAAS (see Table 3 above) contain the following description of an audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In contrast, reports on reviews simply state that a review is substantially less in scope than an audit and consists principally of inquiries of company personnel and analytical procedures applied to financial data. This description applies to all reviews, whether of interim, prospective, pro forma, or historical financial statements. Finally, reports on compilations of historical and prospective financial statements state that a compilation is limited to presenting in the form of financial statements information that is the representation of management.

While the above trend is consistent among the most common accounting functions (audits, reviews, and compilations), reports on the remaining engagements are inconsistent for lack of guidance by the AICPA. Reports on the application of agreed-upon procedures

must, as the title implies, describe in considerable detail the nature of the engagement and the procedures performed, but the remaining reports do not address the nature of the engagement.

ASSURANCE

Most accounting services provide some level of assurance. An audit, the most intensive type of engagement, is the basis for the highest level of assurance, a positive opinion. Similarly, all other engagements should provide a basis for the level of assurance expressed. Table 4 below summarizes the levels of assurance expressed in each type of report and the basis for each.

TABLE 4

Levels of Assurance

TYPE OF REPORT	BASIS FOR ASSURANCE	ASSURANCE
1. Audit	Audit	Positive opinion
2. Use in Other Countries	Audit	Positive opinion
3. Condensed	Not stated / reference to audit report	Positive opinion
4. Agreed-Upon Procedure	Procedures described	Negative assurance
5. OCBOA	Audit	Positive opinion
6. Specified Items, etc.	Audit	Positive opinion
7. Compliance w/ Contract	Audit	Negative assurance
8. Special Purpose Present.	Audit	Positive opinion
9. Appl. of Acct. Principle	Not stated	No assurance
10. Letters to Underwriters	Not stated / reference to audit report	Not stated / reference to audit report
11. Internal Control	Not stated	Positive opinion
12. Review of Interims	Review	Negative assurance
13. Prospective		
a. Compilation	No basis	No assurance
b. Examination	Procedures performed	Positive opinion
c. Agreed-Upon	No basis	No assurance
14. Pro Forma		
a. Review	Review	Negative assurance
b. Examination	Procedures performed	Positive opinion
15. Compilation	No basis	No assurance
16. Review	Review	Negative assurance
17. Personal Financials	No basis	No assurance

As Table 4 indicates, an accountant usually issues a positive opinion when an audit has been performed. Such an assurance is consistent with the statement in the report that an audit provides a reasonable basis for an opinion. Reports on condensed financial statements and reports on internal control are the only reports which release a positive opinion without explicitly stating a basis for that opinion. All reports that express a

positive opinion are governed by SAS; however, not all reports under these guidelines provide this highest level of assurance. Others, such as the reports on application of agreed-upon procedures, compliance with contractual agreements, and review of interim financial statements, provide no basis for a positive opinion but allow the accountant to issue a negative assurance. A negative assurance indicates that no need for any material modifications, other than those listed in the report, came to the accountant's attention based on the work performed.

No matter which AICPA guidelines govern, neither reviews nor compilations provide a basis for a positive opinion. Review engagements permit the issuance of a negative assurance, but a compilation conveys no form of assurance.

COMPLETING THE REPORT

After expressing an opinion on the presentation of financial statements, the auditor must complete his responsibilities by signing and dating the report. While signing and dating a report may seem like a simple task, the AICPA has issued several guidelines which accountants follow when completing their reports. These guidelines are outlined below in Table 5.

TABLE 5

Completing the Report

TYPE OF REPORT	SIGNING THE REPORT	DATING THE REPORT
1. Audit	The manual or printed signature of the auditor's firm	Generally dated at the completion of field work
2. Use in Other Countries	The manual or printed signature of the auditor's firm	Generally dated at the completion of field work
3. Condensed	No Specific Guidance	Dated same as related audit report
4. Agreed-Upon Procedure	No Specific Guidance	No Specific Guidance
5. OCBOA	The manual or printed signature of the auditor's firm	Generally dated at the completion of field work
6. Specified Items, etc.	The manual or printed signature of the auditor's firm	Generally dated at the completion of field work
7. Compliance w/ Contract	The manual or printed signature of the auditor's firm	Generally dated at the completion of field work
8. Special Purpose Present.	The manual or printed signature of the auditor's firm	Generally dated at the completion of field work
9. Appl. of Acct. Principle	No Specific Guidance	No Specific Guidance
10. Letters to Underwriters	No Specific Guidance	Ordinarily dated at or shortly before closing date (may also date at effective date)
11. Internal Control	No Specific Guidance	Generally dated at the completion of field work
12. Review of Interims	No Specific Guidance	Generally dated at the completion of field work
13. Prospective	No Specific Guidance	Generally dated at the completion of field work
14. Pro Forma	No Specific Guidance	Dated at completion of appropriate procedures
15. Compilation	No Specific Guidance	Dated at completion of compilation
16. Review	No Specific Guidance	Dated at completion of inquiries and analyticals
17. Personal Financials	No Specific Guidance	No Specific Guidance

Signing the Report

Of the three sets of standards, only the SAS offer guidelines as to how accountants should sign their reports (see Table 5). Even then, the only reports addressed by the SAS are the audit reports of U.S. GAAP, other countries' GAAP, and the special reports. For the other reports governed by the SAS, as well as the reports governed by the SSAE and the SSARS, the Standards do not give any specific guidelines for auditors to follow when signing a report. While accountants might assume that the signature guidelines apply uniformly across all types of reports, the standards do not expressly support such an assumption.

Dating the Report

In general, the reporting standards of the SAS, the SSAE, and the SSARS agree that the accountant should date the report at the completion of the applicable field work. For letters to underwriters, the accountant should date the report as of the closing date (the date which the relevant securities are given to the underwriter) or the effective date (the date when the registration becomes effective).

The date of the accountant's report is crucial when considering the effects of subsequent events. A subsequent event is an event or transaction that occurs after the balance sheet date but before the date of the accountant's report that has a material effect on the financial statements. Subsequent events are divided into the following two types:

1. *Adjustment Type* - events that provide additional evidence as to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements. This type requires adjustment of the financial statements.

2. *Disclosure Type* - events that provide evidence with respect to conditions that did not exist at the date the balance sheet was reported on but arose after that date. This type requires disclosure in the financial statements.

For adjustment type subsequent events, the accountant must ensure that the adjustment is made and date his report as of the last day of field work. For disclosure type subsequent

events, the accountant may either date his report at the date of the subsequent event, or he may dual date his report (date the report as of the end of field work and date the disclosure note later).

DEPARTURE FROM THE STANDARD UNQUALIFIED OPINION

Among the various reasons why an accountant may modify a report, both deviations from GAAP and limitations on scope seem to have the most pervasive effects across the sets of reporting guidelines. Deviations from GAAP may have a direct, material impact on the financial statement presentation, while limitations on scope alter the audit process as they may preclude an accountant from gathering sufficient, competent evidence. Thus, both deviations from GAAP and limitations on scope must be evaluated by an accountant. Guidelines for deviations from GAAP and limitations on scope are outlined in Table 6.

TABLE 6

Departure from the Standard Unqualified Opinion

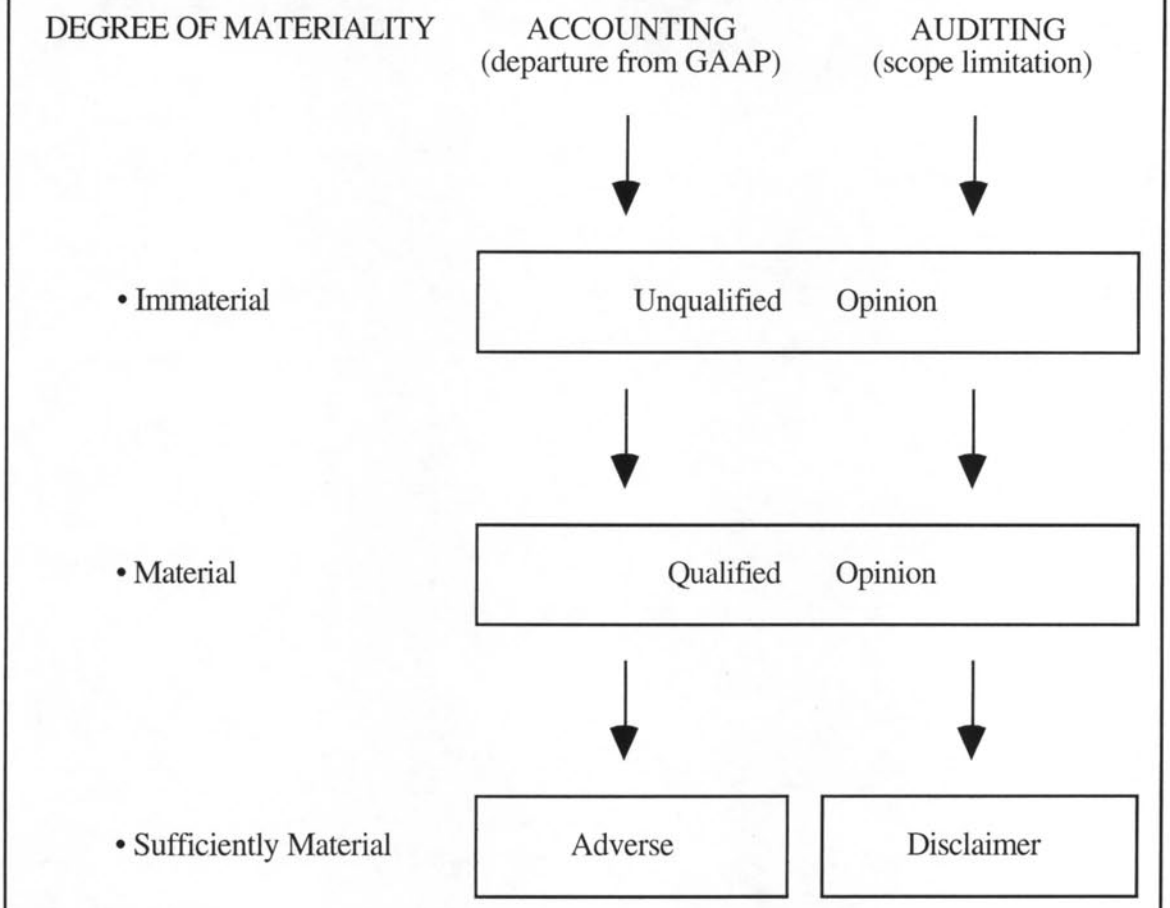
TYPE OF REPORT	DEVIATION FROM GAAP	SCOPE LIMITATION
1. Audit	Unqualified, Qualified, or Adverse Opinion (UQA)--See Chart 1	Unqualified, Qualified, or Disclaimer of Opinion (UQD)--See Chart 1
2. Use in Other Countries	Describe significant difference between U.S. GAAP and other country's GAAP	No Specific Guidance
3. Condensed	No Specific Guidance	No Specific Guidance
4. Agreed-Upon Procedure	No Specific Guidance	No Specific Guidance
5. OCBOA	State basis of representation	UQD--See Chart 1
6. Specified Items, etc.	N/A, unless intended to be in conformity with GAAP	UQD--See Chart 1
7. Compliance w/ Contract	Refer to specific covenants	No Specific Guidance
8. Special Purpose Present.	No Specific Guidance	UQD--See Chart 1
9. Appl. of Acct. Principle	No Specific Guidance	No Specific Guidance
10. Letters to Underwriters	Disclose departure in letter	Expand standard report in registration statement to identify limitation
11. Internal Control	No Specific Guidance	UQD--See Chart 1
12. Review of Interims	UQA-- See Chart 1	If precluded from finishing review, advise senior management and Board of Directors (or Audit Committee)
13. Prospective:		
a. Compiled	Disclose basis of accounting	If material, withdraw from engagement
b. Examined	UQA--See Chart 1	If material, issue either an adverse or a disclaimer of opinion
c. Agreed-Upon	No Specific Guidance	UQD--See Chart 1
14. Pro Forma	UQA--See Chart 1	UQA--See Chart 1
15. Compilation	Disclose basis of accounting	If material, issue either an adverse or a disclaimer of opinion
16. Review	If adequate, disclose deficiencies in report; if not, withdraw from engagement	If material, issue either an adverse or a disclaimer of opinion
17. Personal Financials	No Specific Guidance	No Specific Guidance

Deviations from GAAP

As Table 6 illustrates, a departure from GAAP might cause an accountant to modify his or her opinion to a qualified or adverse opinion in four of the CPA's reports. In reporting on an audit, a review of interims, and examinations of prospectives and pro formas, the accountant should follow the decision model shown in Chart 1. Depending on the degree of materiality, the accountant may render an unqualified, a qualified, or an adverse opinion. In the case of standard review, an auditor may be required to withdraw from the engagement.

On the other hand, some types of reports cover information which may not be in conformity with GAAP by their very nature. Reports for use in other countries, in conformity with OCBOA, in compliance with contractual agreements, and compilations are all examples of potential non-GAAP reporting. The major requirement in such reports is that the auditor disclose the basis of representation or accounting.

CHART 1 : DECISION MODEL



Adapted from MicroMash (§3718)

Limitations on Scope

As listed in Table 6, several reports may follow the decision model in Chart 1 when the accountant experiences scope limitations. Again, depending on the degree of materiality, the accountant may issue an unqualified, a qualified, or a disclaimer of opinion (rather than an adverse opinion as with deviations from GAAP).

Scope limitations on some reports, however, require the accountant to consider whether the limitation precludes him from completing his responsibilities. These reports include reviews of public and non-public companies, and compilations of prospective and

historical financial statements. If a limitation does preclude the accountant from completing his or her duties, the Standards recommend that he or she withdraw from the engagement.

INFORMATION ACCOMPANYING THE FINANCIAL STATEMENTS

Along with the presentation of the basic financial statements, many companies issue additional financial information. This additional information may or may not be required. In either case, the accountant does have responsibilities related to information accompanying the financial statements in reporting engagements.

Required Supplemental Information

Certain entities are required by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) to issue specific information in addition to their regular financial statement presentation. The three CPA reports that primarily address this required information are the audit report, the compilation report, and the review report. On an audit engagement, an accountant must add an explanatory paragraph to his report if:

1. the required supplemental information is omitted,
2. the auditor is unable to perform necessary procedures, or
3. a material departure exists in the supplemental information.

In no way, however, does this explanatory paragraph affect the auditor's original opinion. For compilation and review engagements, the SSARS state that the accountant need only to declare the level of responsibility that he will take concerning the supplemental information. In a review, the accountant may or may not provide limited assurance.

Guidelines have also been established for reporting on condensed statements and for letters to underwriters. When reporting on condensed statements, the accountant must evaluate the supplemental information in the same manner as he or she would in a regular audit report. If the accountant sees a need to identify incomplete or incorrect supplemental information, he or she should simply add an explanatory paragraph to the report. For

letters written to underwriters, the accountant would refer to explanatory language in the opening paragraph of the letter as necessary.

Other information

When issuing an audit report on a publicly held entity, an accountant should follow a set of procedures concerning other information contained in the financial statements. The auditor should read the information and check for consistency with the financial statements and material misstatements. If a problem exists, the auditor should discuss the information with the client. Depending on the client's decision, the auditor may change the information, change his report, or withdraw from the engagement. In addition, an accountant may evaluate information if requested to do so by a client; i.e., reports on specific items. In such a case, the accountant should follow the same procedures as with the audit of a publicly-held entity.

OTHER REPORTING ISSUES

In addition to the issues addressed above, the Standards provide guidance for other reporting issues such as restrictions on use, piecemeal opinions, and comparative statements.

Restrictions on Use

Due to the nature of their presentation, some reports must be restricted as to their distribution. As seen in Table 7, these restricted reports include agreed-upon procedures reports (both regular and prospectives), special reports, and underwriter letters. Because these reports cover unusual items and/or material, they may ultimately mislead an uninformed reader. Therefore, the SAS and the SSAE have established guidelines restricting their use.

TABLE 7

Restrictions on Use of Reports

TYPES OF REPORTS	RESTRICTIONS ON USE
1. Audit	No Specific Guidance
2. Use in Other Countries	No Specific Guidance
3. Condensed	No restrictions on use
4. Agreed-Upon Procedure	Restricted to named parties
5. OCBOA	Restricted if financials are prepared in conformity with requirements of a government regulatory agency
6. Specified Items, etc.	Restricted if financials are prepared based on a contract that is not GAAP or OCBOA
7. Compliance w/ Contract	Restricted to parties of contract or government regulatory agency
8. Special Purpose Present.	Restricted to parties of contract or government regulatory agency
9. Appl. of Acct. Principle	No Specific Guidance
10. Letters to Underwriters	Restricted to named parties
11. Internal Control	No restrictions on use
12. Review of Interims	No Specific Guidance
13. Prospective:	
a. Compilation	No Specific Guidance
b. Examination	No Specific Guidance
c. Agreed-Upon Procedures	Restricted to named parties
14. Pro Forma	No restrictions on use
15. Compilation	No Specific Guidance
16. Review	No Specific Guidance
17. Personal Financials	No Specific Guidance

Piecemeal Opinions

In an attempt to clarify certain reports, the SAS has prohibited the issuance of piecemeal opinions in two reporting engagements--Audits and Specified Items. In AU§508.73, the SAS states that in audit engagements:

> Piecemeal opinions (expressions of opinion as to certain identified items in financial statements) should not be expressed when the auditor has disclaimed an opinion or has expressed an adverse opinion on the financial statements taken as a whole because piecemeal opinions tend to overshadow or contradict a disclaimer of opinion or an adverse opinion.

Also, for specified items engagements, the SAS states in AU§623.14:

> The auditor should not express an opinion on specified elements, accounts, or items included in financial statements on which he or she expressed an adverse opinion or disclaimed an opinion based on an audit, if such reporting would be tantamount to expressing a piecemeal opinion on the financial statements.

These two guidelines are the only standards that clearly define an accountant's responsibilities concerning piecemeal opinions. Standards do not expressly prohibit the issuance of piecemeal opinions on all other types of reports.

Comparative Statements

Because some entities are required to issue financial information for the current year and recent prior years, both the SAS and the SSARS establish guidelines concerning comparative statements. When reporting on audited financial statements, the accountant should address several issues to ensure that information from prior years is still presented fairly. A continuing accountant should update his or her report for the prior periods presented. When updating these reports, an accountant may issue one type of opinion for one period and another type of opinion on the other periods presented. If the accountant is aware of any matters that affect the prior statements, he or she should modify his report as needed. In such a case, the accountant would need to explain the reason for changing the opinion in a separate paragraph. Also, predecessor accountants should consider whether he or she will consent to the reuse of the previous opinion. If the predecessor accountant's

report is not presented, the continuing accountant should note the date and type of opinion previously issued.

When performing compilation and/or review services, the accountant should consider several issues that pertain to comparative statements and these types of services. First, client-prepared financial statements in a prior year are not comparable to a CPA-prepared compilation or review in the current year. Second, if a set of compiled statements omit most disclosures, then this set would not be comparable to a set of statements that made such disclosures. Finally, the accountant should generally make the same considerations as he or she would make in an audit engagement (as listed above).

The guidelines issued by the SAS and the SSARS for comparative statements have a high degree of similarity. Both sets of guidelines address updating the prior year's reports and using the work of predecessor accountants. Because the levels of service are lower in compilations and reviews, the SSARS do add guidance as to when certain financial statements would not be comparable.

OPPORTUNITIES FOR UNIFORMITY

This analysis of reporting standards and of reports issued by accountants uncovered several glaring inconsistencies. This study seeks to resolve some of these inconsistencies with suggestions for greater uniformity of the reporting function.

The first suggestion will attempt to eliminate inconsistencies within the headings of the reports. Appropriate standards, whether SAS, SSAE, or SSARS, preclude an auditor from issuing a report on any engagement other than a compilation or preparation of personal financial statements if he or she is not independent. Currently, only audit reports, special reports, and reports on the review of interim financial statements expressly require a title including the word "independent". To eliminate discrepancies and avoid confusion, the AICPA should update the standards to require such a heading on all reports for which independence is necessary.

While the addressee of a report is not the most crucial element, the AICPA should provide more guidance on this subject. Reports on audits and interim reviews and letters to underwriters are the only reports directing the accountant to a particular addressee. The AICPA should at least require the accountant to address the report to the organization that ordered the engagement. Clarification of this rather simple element could help to avoid confusion and misinterpretation on the part of unintended readers.

As the gap between an accountant's duties and the public's expectations of the accountant increases, accountants have been subject to numerous costly and damaging litigation suits arising from accounting and attestation engagements. However feeble, any attempt to decrease this expectations gap is worthwhile, and clearly expressing the responsibilities of management and the accountant is one such step. The AICPA should require its standard-setting bodies to explicitly state the responsibility assumed by the accountant in each engagement. Such instruction would bring uniformity to the reports and, perhaps, reduce the widening expectations gap.

Accounting standards are fairly consistent in requiring accountants to publish the standards that they followed in completing the engagement; however, standards are not as uniform in communicating the requirements of these standards or the nature of the engagement. Many engagements are governed by those standards established by the AICPA, yet readers are unable to determine from the report what such an engagement entails. Requiring increased description would bring uniformity to the reports, but the AICPA should weigh this advantage against the increased complexity that such detail might introduce.

The chief function of any accounting report is to communicate the results of the engagement, and often the accountant must express some level of assurance in the report. Because this assurance is perhaps the most important element of the report, accountants must communicate it clearly and consistently. For the most part, applicable standards treat this element accordingly. The reports usually outline the basis for the level of assurance

followed by the opinion. Suggestions to improve reports on condensed financial statements and internal control, however, are in order. These engagements provide a positive opinion without expressly stating the basis for the assurance. The AICPA should draft new instructions to insert a basis for opinion in these two reports.

Guidelines concerning the completion of an accountant's report are quite simple and well-defined. The reporting standards do, however, leave room for added uniformity when accountants sign and date their reports. First, for the reports whose signature is directly not addressed by the SAS, guidelines should explicitly state how an accountant should sign his or her report; the SSAE and the SSARS should provide similar guidance for their reports. Second, since the date of a report is so crucial, specific guidance should be given to accountants when reporting on agreed-upon procedures, application of accounting principles, and personal financial statements.

With respect to information accompanying the financial statements, the reporting standards should expand their guidance by requiring accountants to read all of the information presented in all reporting engagements. An accountant should have full knowledge of the financial presentation on which he or she signs.

Restrictions on use serve to identify the intended readers of a report. Thus, the reporting guidelines should state, for all types of reports, whether a report should be restricted in use, and if so, the intended parties. Considering the liability pressures accountants now face, the guidelines on restrictions should be clear and concise for all reporting engagements.

Finally, piecemeal opinions may confuse readers of reports by overshadowing adverse or disclaimers of opinion; therefore, piecemeal opinions have been expressly prohibited in reports on audits and specified elements or accounts. If the AICPA's intention is to avoid such confusion, standards should specifically bar the use of piecemeal opinions on similar engagements.

CONCLUSION

For years, the standard-setting bodies of the AICPA have provided guidance to its accountants through the issuance of SAS, SSAE, and SSARS. Despite these detailed standards, the accounting profession has yet to reach uniformity in its reporting procedures. After careful analysis of broad reporting standards and comparison of the common elements of reports issued by accountants, several opportunities for increased consistency are apparent. In order to continue to provide professional guidance to its members, the AICPA must seek to resolve such inconsistencies and provide uniform guidance in the future. In fact, as accountants provide an increasingly wider range of services, the ability to provide consistent reporting guidance will determine the future success of the AICPA and the accounting profession.