



**Agenda Item 1C**

**July 27, 2020 Draft of AT-C Section 206,<sup>1</sup> *Direct Examination Engagements***

**This draft is marked from the clean draft of proposed revised AT-C section 206 presented to the ASB on July 20, 2020. The changes made as a result of the discussion on July 23, 2020 are highlighted in yellow.**

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<b>Introduction</b>	<b>Introduction (Ref: par. .01–.02)</b>
<p><b>.01</b> This section contains performance and reporting requirements and application guidance for direct examination engagements.</p>	
<p><b>.02</b> In addition to complying with this section, a practitioner performing a direct examination engagement is required to comply with AT-C section 105, <i>Concepts Common to All Attestation Engagements</i>.<sup>*</sup> This section addresses direct examination engagements in which the practitioner obtains reasonable assurance by measuring or evaluating the underlying subject matter against the criteria and expressing an opinion that conveys the results of that measurement or evaluation. In a direct examination engagement, the responsible party does not provide an assertion. (Ref: par. .A1–<b>Error! Reference source not found.</b>)</p>	<p><b>.A1</b> The practitioner’s objective in a direct examination engagement is to obtain reasonable assurance, just as it is in an assertion-based examination engagement.</p> <p><b>.A2</b> This section is not applicable to examination engagements related to subject matter for which the other AT-C sections require the application of AT-C section 205, <i>Assertion-Based Examination Engagements</i>. Those sections are as follows</p> <p><b>a.</b> AT-C section 305, <i>Prospective Financial Information</i></p>

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

<sup>\*</sup> All AT-C sections can be found in AICPA *Professional Standards*.

<b>Introduction, Objectives, Definitions, and Requirements</b>	<b>Application and Other Explanatory Material</b>
	<p><i>b. AT-C section 310, Reporting on Pro Forma Financial Information</i></p> <p><i>c. AT-C section 315, Compliance Attestation</i></p> <p><i>d. AT-C section 320, Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting (Ref: par. .02)</i></p>
<b>Effective Date</b>	
<b>.03</b> This section is effective for practitioners' direct examination reports dated on or after June 15, 2022	
<b>Objectives</b>	
<p><b>.04</b> In conducting a direct examination engagement, the objectives of the practitioner are to</p> <ul style="list-style-type: none"> <li><i>a.</i> obtain reasonable assurance by measuring or evaluating the underlying subject matter against the criteria,</li> <li><i>b.</i> express an opinion in a written report that conveys the results of the practitioner's measurement or evaluation, and</li> <li><i>c.</i> communicate as required by this AT-C section, in accordance with the results of the practitioner's procedures.</li> </ul>	
<b>Requirements</b>	
<b>Requirements in AT-C Section 205 To Be Adapted To a Direct Examination Engagement and Requirements in This Section That Replace, or Are in Addition to, Requirements in AT-C Section 205</b>	<b>Requirements in AT-C Section 205 To Be Adapted To a Direct Examination Engagement and Requirements in This Section That Replace, or Are In Addition to, Requirements in AT-C Section 205 (Ref: par. .05 and .06)</b>
<b>.05</b> In performing a direct examination engagement, the practitioner is not required to request a written assertion from the responsible	<b>.A3</b> In a direct examination engagement, obtaining reasonable assurance is the benchmark the practitioner uses for determining how

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p>party.<sup>2</sup> However, the practitioner is required to apply the other requirements in AT-C section 205 to a direct examination engagement unless</p> <p><i>a.</i> the requirement cannot be applied as written because of the nature of a direct examination engagement, in which case the practitioner should adapt and apply the requirement (Ref: par. .A3-.A6.A7.A5)</p> <p><i>b.</i> specified requirements in this section differ from and replace requirements in AT-C section 205. (These requirements are tailored to a direct examination engagement and identified in paragraph .06 of this section.) (Ref: par. .A8)</p>	<p>and the extent to which AT-C section 205 may need to be adapted.</p> <p><b>.A4</b> The nature of a direct examination engagement is one in which the responsible party does not provide an assertion and the extent to which the responsible party has measured or evaluated the underlying subject matter against the criteria may vary.</p> <p><b>.A5</b> An example of a requirement in AT-C section 205 that the practitioner may be unable to apply as written is the requirement in paragraph .30a of AT-C section 205 to evaluate whether the responsible party has appropriately applied the requirements of the criteria to any estimated amounts</p> <p>In a direct examination engagement, the responsible party may not have fully applied the criteria to the underlying subject matter to develop the estimate. Therefore, the practitioner would be unable to evaluate the responsible party’s method for making the estimate. However, the practitioner might adapt the requirement by determining the method used by other entities in the same industry to make the estimate and then using that method in developing the estimate. .</p> <p><b>.A6</b> Although the practitioner could not evaluate the appropriateness of the responsible party’s method for making the estimate, as required by AT-C section 205, the practitioner, as part of developing the estimate, would be able to perform other procedures that are relevant to making the estimate such as obtaining an</p>

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

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
	<p>understanding of</p> <ul style="list-style-type: none"> <li>• how the responsible party’s information system captures and records data and other information that provides a basis for the estimate (i.e., underlying subject matter)</li> <li>• the relevant controls over that data and other information</li> <li>• the factors both internal and external to the entity that affect the estimate</li> </ul> <p>Obtaining an understanding of these matters also assists the practitioner in determining the appropriate method to use for making the estimate, assessing the accuracy and completeness of the data, and considering other relevant information to be used in developing the estimate.</p> <p>.A7 Paragraph .13 of AT-C section 205 requires the practitioner to develop a plan that includes a description of the</p> <ul style="list-style-type: none"> <li>• nature, timing, and extent of planned risk assessment procedures and further procedures</li> <li>• other planned procedures that are required to be carried out so that the engagement complies with the attestation standards</li> </ul> <p>Applying paragraph .13 to a direct examination engagement may increase the extent, or change the nature, of the work the practitioner needs to perform because in a direct examination engagement the practitioner measures or evaluates the underlying subject matter against the criteria to obtain reasonable assurance. In an assertion-based examination engagement the practitioner tests subject matter information prepared by the responsible party. Also, in a direct</p>

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material						
	<p>examination engagement, risk assessment procedures may primarily address</p> <ul style="list-style-type: none"> <li>• the accuracy and completeness of the underlying subject matter</li> <li>• the practitioner’s competence and experience with the underlying subject matter and criteria</li> <li>• the complexity of the measurement or evaluation of the underlying subject matter against the criteria.</li> </ul> <p><b>.A8</b> To provide context for the requirements identified in this section or to present a complete list of requirements for a particular aspect of a direct examination engagement, some paragraphs in this section repeat requirements that are the same as those for an assertion-based examination engagement. (Ref: par. .05b)</p>						
<b><i>Requirements In This Section That Differ From and Replace., Or Are in Addition to, Requirements in AT-C Section 205</i></b>	<b><i>Requirements in this Section That Differ From and Replace, Or Are In Addition to, Requirements In AT-C Section 205 (Ref; par. .06)</i></b>						
<p><b>.06</b> When the practitioner performs examination procedures that address the following aspects of a direct examination engagement, the practitioner should apply the requirements in the paragraphs identified in items <i>a–d</i>, which differ from and replace, or are in addition to, the related requirements in AT-C section 205 (Ref: par. .A9.A9)</p> <p style="margin-left: 40px;"><i>a</i> matters relevant to accepting or continuing a direct examination engagement (paragraphs .07—.08 )</p> <p style="margin-left: 40px;"><i>b</i> terms of the engagement (paragraph .09)</p>	<p><b>.A9</b> The following table identifies paragraphs in this section that contain requirements that differ from and replace, or are in addition to, the related requirements in AT-C section 205:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Aspect of a Direct Examination</th> <th style="text-align: center;">Paragraphs in AT-C Section 206 That Contain Requirements That Differ From and Replace or Are in</th> <th style="text-align: center;">Paragraphs in AT-C Section 205 That Are Replaced by Paragraphs in AT-C Section 206</th> </tr> </thead> <tbody> <tr> <td style="height: 100px;"> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Aspect of a Direct Examination	Paragraphs in AT-C Section 206 That Contain Requirements That Differ From and Replace or Are in	Paragraphs in AT-C Section 205 That Are Replaced by Paragraphs in AT-C Section 206			
Aspect of a Direct Examination	Paragraphs in AT-C Section 206 That Contain Requirements That Differ From and Replace or Are in	Paragraphs in AT-C Section 205 That Are Replaced by Paragraphs in AT-C Section 206					

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material		
<p><i>c</i> the written representations that a practitioner is required to request of the responsible party and of the engaging party when the engaging party is not the responsible party (paragraphs .10–.11)</p> <p><i>d</i> the required elements of the practitioner’s direct examination report. (paragraph .12)</p>		<b>Addition to Requirements in AT-C Section 205</b>	
	Acceptance or Continuance	.07–.08	
	Terms of the Engagement	.09	.8
	Written Representations	.10–.11	.51 and .53
	Elements of the Report	.12	.63
<b>Acceptance and Continuance</b>	<b>Acceptance and Continuance (Ref: par. .07–.08)</b>		
<b><i>Determining Whether to Perform a Direct Examination Engagement</i></b>	<b><i>Determining Whether to Perform a Direct Examination Engagement</i></b>		
<p><b>.07</b> Before accepting or continuing a direct examination engagement, the practitioner should obtain an understanding of the following matters through inquiries of the appropriate party: (Ref: par. .A10–.A14)</p> <p><i>a.</i> The intended purpose of the engagement, how the practitioner’s report will be used, and why the engaging party wishes to engage the practitioner to perform a direct examination engagement</p> <p><i>b.</i> If the responsible party has not measured or evaluated the</p>	<p><b>.A10</b> In some cases, the responsible party may be unable to provide a written assertion because the entity does not have the personnel or systems needed to establish a reasonable basis for such an assertion. In other cases, the responsible party may simply wish to engage the practitioner to measure or evaluate the underlying subject matter against the criteria, or an engaging party other than the responsible party may engage the practitioner to do so.</p> <p><b>.A11</b> In determining whether to accept or continue a direct examination engagement, the practitioner may inquire whether the</p>		

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p>underlying subject matter against the criteria, why the responsible party has not done so</p> <p>c. If the responsible party has measured or evaluated the underlying subject matter against the criteria, why the responsible party does not intend to provide an assertion</p>	<p>responsible party is required by law, regulation, or contract to measure or evaluate the underlying subject matter against the criteria or provide a written assertion regarding the outcome of that measurement or evaluation.</p> <p>.A12 If the responsible party states that it has measured or evaluated the underlying subject matter against the criteria, the practitioner may request the results of that measurement or evaluation.</p> <p>.A13 The responsible party may <b>not intend to</b> provide an assertion because, for example, the responsible party performed only a partial measurement or evaluation of the underlying subject matter, but not to an extent that would provide a reasonable basis for an assertion.</p> <p>.A14 A practitioner may be requested to change an assertion-based examination engagement, in accordance with AT-C section 205, to a direct examination engagement. A change from an assertion-based examination engagement to a direct examination engagement would not be considered a change to a lower level of service as described in paragraph .32 of AT-C section 105 because both services entail obtaining reasonable assurance and result in an examination report.</p>
<p>.08 Based on the information obtained from</p> <p>a. the inquiries in paragraph .07,</p> <p>b. previous engagements performed for the engaging party, if any, and</p> <p>c. preliminary discussions with the engaging party, including discussion when agreeing upon the terms of the engagement,</p>	

<b>Introduction, Objectives, Definitions, and Requirements</b>	<b>Application and Other Explanatory Material</b>
the practitioner should evaluate whether to perform a direct examination engagement.	
<b>Terms of the Engagement</b>	<b>Terms of the Engagement (Ref: par. .09)</b>
<p><b>.09</b> Paragraph .07 of AT-C section 205 requires the practitioner to agree upon the terms of the engagement with the engaging party in sufficient detail in an engagement letter or other suitable form of written agreement. In a direct examination engagement, the agreed-upon terms of the engagement should include the following: (Ref: par. .A15)</p> <ul style="list-style-type: none"> <li>a. The objective and scope of the engagement</li> <li>b. The responsibilities of the practitioner</li> <li>c. A statement that the engagement will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants</li> <li>d. The responsibilities of the responsible party and the responsibilities of the engaging party, if different including</li> </ul>	<p><b>.A15</b> A practitioner may further describe by adding the following items to the engagement letter or other suitable form of written agreement:</p> <ul style="list-style-type: none"> <li>a. A statement that a direct examination is designed to obtain reasonable assurance about whether the subject matter information is free from material misstatement</li> <li>b. A statement that the objective of a direct examination is                             <ul style="list-style-type: none"> <li>i. to measure or evaluate the underlying subject matter against the criteria</li> <li>ii. the expression of an opinion in a written practitioner’s report that conveys the results of the practitioner’s measurement or evaluation of the underlying subject matter against the criteria</li> </ul> </li> </ul> <p><b>.A16</b> Situations may exist in which the responsible party is not the engaging party and as such the responsibilities of each party may differ. For example, when the responsible party is not the engaging party, the engaging party rather than the responsible party, may be responsible for identifying the criteria.</p>

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p>the following: (Ref: par. .A16)</p> <ul style="list-style-type: none"> <li>i. The responsible party is responsible for the underlying subject matter</li> <li>ii. The responsible party or engaging party, as applicable, is responsible for the following:                             <ul style="list-style-type: none"> <li>(1) selecting the criteria for the measurement, evaluation, or disclosure of the underlying subject matter (Ref: par. .A17)</li> <li>(2) determining that such criteria are suitable, will be available to the intended users, and are appropriate for the purpose of the engagement</li> </ul> </li> <li>e. A statement about the inherent limitations of an examination engagement (Ref: par. .A18)</li> <li>f. Identification of the criteria for the measurement, evaluation, or disclosure of the subject matter</li> <li>g. An acknowledgement that the engaging party agrees to provide the practitioner with a representation letter at the conclusion of the engagement</li> </ul>	<p><b>.A17</b> The engaging party may request that the practitioner recommend, develop, or assist in developing the criteria for the engagement. Regardless of whether the practitioner recommends, develops, or assists in developing the criteria for the engagement, the engaging party is required to determine that the criteria are suitable, will be available to the intended users, and are appropriate for the purpose of the engagement.</p> <p><b>.A18</b> If relevant, a statement about the inherent limitations of an examination engagement may indicate that “because of the inherent limitations of an examination engagement, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the examination is properly planned and performed in accordance with the attestation standards.”</p>

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p><b>Written Representations</b></p> <p><b>.10</b> The practitioner should request from the responsible party written representations in the form of a letter addressed to the practitioner. The representations should (Ref: par. .A19–.A20)</p> <ul style="list-style-type: none"> <li>a. state that all known matters contradicting the measurement or evaluation of the underlying subject matter and the subject matter information, and any communication from regulatory agencies or others affecting the underlying subject matter have been disclosed to the practitioner, including communications received between the end of the period addressed by the practitioner’s report and the date of the practitioner’s report.</li> <li>b. acknowledge responsibility for                     <ul style="list-style-type: none"> <li>i. the underlying subject matter;</li> <li>ii. selecting the criteria, when applicable; (Ref: par. .A17) and</li> <li>iii. determining that such criteria are suitable, will be available to the intended users, and are appropriate for the purpose of the engagement.</li> </ul> </li> <li>c. state that any known events occurring subsequent to the period (or point in time) of the measurement or evaluation of the underlying subject matter against the criteria being reported on that would have a material effect on the underlying subject matter or subject matter information have</li> </ul>	<p><b>Written Representations (Ref: par. .10)</b></p> <p><b>.A19</b> Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the responsible party. The person from whom the practitioner requests written representations is ordinarily a member of senior management or those charged with governance depending on, for example, the management and governance structure of the responsible party, which may vary by entity, reflecting influences such as size and ownership characteristics.</p> <p><b>.A20</b> Representations by the responsible party cannot replace other evidence the practitioner could reasonably expect to be available. Although written representations provide evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the practitioner has received reliable written representations does not affect the nature or extent of other evidence that the practitioner obtains.</p> <p><b>.A21</b> A discussion of what is considered a material effect on the underlying subject matter or subject matter information may be included explicitly in the representation letter in qualitative or quantitative terms.</p>

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p>been disclosed to the practitioner. (Ref: par. .A21)</p> <p><i>d.</i> state that it has provided the practitioner with all relevant information and access.</p> <p><i>e.</i> state that the responsible party has disclosed to the practitioner</p> <ul style="list-style-type: none"> <li><i>i.</i> all deficiencies in internal control relevant to the underlying subject matter of which the responsible party is aware;</li> <li><i>ii.</i> its knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the underlying subject matter or subject matter information; and</li> <li><i>iii.</i> other matters as the practitioner deems appropriate.</li> </ul>	
<p><b>.11</b> When the engaging party is not the responsible party, the practitioner should request written representations from the engaging party in addition to those requested from the responsible party, in the form of a letter addressed to the practitioner. The representations should</p> <ul style="list-style-type: none"> <li><i>a.</i> acknowledge that the responsible party is responsible for the underlying subject matter.</li> <li><i>b.</i> acknowledge the engaging party’s responsibility for selecting the criteria, when applicable.</li> <li><i>c.</i> acknowledge the engaging party’s responsibility for determining that such criteria are <b>suitable, will be available to</b></li> </ul>	

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p>the intended users and are appropriate for the purpose of the engagement.</p> <p>d. state that the engaging party is not aware of any material misstatements in the underlying subject matter or subject matter information.</p> <p>e. state that the engaging party has disclosed to the practitioner all known events subsequent to the period (or point in time) of the subject matter information being reported on that would have a material effect on the subject matter information.</p> <p>f. address other matters as the practitioner deems appropriate.</p>	
Content of the Practitioner’s Report	Content of the Practitioner’s Report
<p>.12 The practitioner’s report should include the following, unless the practitioner is disclaiming an opinion, in which case, items .12g, and .12h should be omitted:</p> <p>a. A title that includes the word independent. (Ref: par. .A22)</p>	<p><b>Title (Ref: par. .12a)</b></p> <p><b>.A22</b> A title indicating that the practitioner’s report is the report of an independent practitioner (for example, “Independent Practitioner’s Report,” “Report of Independent Certified Public Accountant,” or “Independent Accountant’s Report”) affirms that the practitioner has met all the relevant ethical requirements regarding independence and, therefore, distinguishes the independent practitioner’s report from reports issued by others.</p>
<p>b. An appropriate addressee as required by the circumstances of</p>	

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
the engagement.	
c. An identification or description of the subject matter information being reported on, including the point in time or period of time to which the measurement or evaluation of the underlying subject matter against the criteria relates.	
d. An identification of the criteria against which the underlying subject matter was measured or evaluated. (Ref: par. .A23)	<p><b>Criteria (Ref: par. .12d)</b>  <b>.A23</b> The practitioner’s report may include the criteria or refer to them if they are included in the subject matter <b>information</b> or are otherwise readily available. It may be relevant in the circumstances to disclose the source of the criteria or the relevant matters discussed in paragraph .A73 of AT-C section 205.</p>
<p>e. An identification of (Ref: par. .A24)</p> <ul style="list-style-type: none"> <li>i. the responsible party and its responsibility for the underlying subject matter</li> <li>ii the practitioner’s responsibility for                             <ul style="list-style-type: none"> <li>(1) measuring or evaluating the underlying subject matter against the criteria,</li> <li>(2) expressing an opinion that conveys the results of the practitioner’s measurement or evaluation of the underlying subject matter against the criteria, based on the practitioner’s examination</li> <li><b>(3) presenting any subject matter information as part of the practitioner’s measurement or evaluation, when applicable</b></li> </ul> </li> </ul>	<p><b>Relevant Responsibilities (Ref: par. .12e)</b>  <b>.A24</b> Identifying relative responsibilities informs the intended users that the responsible party is responsible for the underlying subject matter, and the practitioner’s role is to measure or evaluate the underlying subject matter against the criteria and <b>express an opinion that conveys the results of that measurement or evaluation</b></p> <p>.</p>
f. A statement that <ul style="list-style-type: none"> <li>i. the practitioner’s examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.</li> </ul>	

<b>Introduction, Objectives, Definitions, and Requirements</b>	<b>Application and Other Explanatory Material</b>
<p>ii. those standards require that the practitioner plan and perform the examination to obtain reasonable assurance about whether the underlying subject matter is in accordance with (or based on) the criteria, in all material respects (or equivalent language regarding the underlying subject matter and criteria, such as the language used in the examples in paragraph .A25)</p> <p>iii. the practitioner believes the evidence the practitioner obtained is sufficient and appropriate to provide a reasonable basis for the practitioner’s opinion.</p>	<p><b><i>Statement About the Underlying Subject Matter and the Criteria (Ref: par. .12f(ii))</i></b></p> <p><b>.A25</b> The language in paragraph .12f(ii) may need to be tailored to reflect the nature of the underlying subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph .12f(ii)(1) include, “to obtain reasonable assurance about whether</p> <ul style="list-style-type: none"> <li>• the underlying subject matter is presented in accordance with (or based on) the criteria, in all material respects.”</li> <li>• the subject matter information is presented fairly, in all material respects, based on the criteria.”</li> </ul>
<p>g. A description of the nature of a direct examination engagement. (Ref: par. .A26–.A27)</p>	<p><b><i>Description of the Nature of a Direct Examination Engagement (Ref: par. .12g)</i></b></p> <p><b>.A26</b> A description of the nature of a direct examination engagement may state, for example, that</p> <ul style="list-style-type: none"> <li>• a direct examination involves measuring or evaluating the underlying subject matter against the criteria and performing other procedures to obtain sufficient appropriate evidence</li> <li>• in making an assessment of the risks of material misstatement, the practitioner considered and obtained an understanding of internal control relevant to the underlying subject matter in order to design procedures that are</li> </ul>

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
	<p>appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, no such opinion is expressed.</p> <ul style="list-style-type: none"> <li>• the nature, timing, and extent of the procedures selected depend on the practitioner’s judgment, including an assessment of the risks of material misstatement of the subject matter information, whether due to fraud or error.</li> </ul> <p><b>.A27</b> A practitioner may be requested to provide in a separate section of the practitioner’s report a description of the procedures performed and the results thereof in support of the practitioner’s opinion. The following factors are relevant when determining whether to include such a description in the report:</p> <ul style="list-style-type: none"> <li>• Whether such a description is likely to overshadow the practitioner’s overall opinion or cause report users to misunderstand the opinion</li> <li>• Whether the parties making the request have an appropriate business need or reasonable basis for requesting the information (for example, the specified parties are required to maintain and monitor controls that either encompass or are dependent on controls that are the subject of a direct examination and, therefore, need information about the tests of controls to enable them to have a basis for concluding that they have met the requirements applicable to them)</li> <li>• Whether the parties have an understanding of the nature and underlying subject matter of the engagement and experience in using the information in such reports</li> </ul>

<b>Introduction, Objectives, Definitions, and Requirements</b>	<b>Application and Other Explanatory Material</b>
<p><i>h.</i> A statement that the practitioner is required to be independent and to meet the practitioner’s other ethical responsibilities in accordance with relevant ethical requirements related to the examination engagement (Ref: par. .A28–.A29)</p>	<p><b><i>Relevant Ethical Requirements (Ref: par. .12h)</i></b></p> <p><b>.A28</b> Relevant ethical requirements consist of the AICPA Code of Professional Conduct together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive. When the AICPA Code of Professional Conduct applies, the practitioner’s other ethical responsibilities relate to the “Principles of Professional Conduct” (ET sec. 0.300).<sup>3</sup></p> <p><b>.A29</b> Relevant ethical requirements may exist in several different sources, such as ethical codes and additional rules and requirements within law and regulation. When independence and other relevant ethical requirements are contained in a limited number of sources, the practitioner may choose to name the relevant sources (for example, the name of the code, rule, or applicable regulation, or <i>Government Auditing Standards</i> promulgated by the Comptroller General of the United States) or may refer to a term that appropriately describes those sources.</p>
<p><i>i.</i> A statement that describes significant inherent limitations, if any, associated with the measurement or evaluation of the underlying subject matter against the criteria. (Ref: par. .A30)</p>	<p><b><i>Inherent Limitations (Ref: par. .12i)</i></b></p> <p><b>.A30</b> When not explicitly required by an AT-C section, identification in the report of inherent limitations is based on the practitioner’s judgment.</p>
<p><i>j.</i> The practitioner’s opinion conveying the results of the practitioner’s measurement or evaluation of the underlying</p>	<p><b><i>Opinion (Ref: par. .12j )</i></b></p>

<sup>3</sup> All ET sections can be found in AICPA *Professional Standards*.

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p>subject matter against the criteria (Ref: par. .A31–.A33)</p>	<p><b>.A31</b> The language of the practitioner’s opinion in paragraph .12j may need to be tailored to reflect the nature of the underlying subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph .12j include the following:</p> <ul style="list-style-type: none"> <li>• The underlying subject matter is presented in accordance with (or based on) the criteria, in all material respects.</li> <li>• The subject matter information is free from material misstatement based on the criteria.</li> <li>• The subject matter information is presented fairly, in all material respects, based on the criteria. (The practitioner’s professional judgment concerning the fairness of the presentation of the subject matter information relates to whether the measurement, recognition, presentation, and disclosure of all material items in the presentation of the subject matter achieve fair presentation.)</li> </ul> <p><b>.A32</b> A single practitioner’s report may cover more than one aspect of subject matter information. When that is the case, the report may contain separate opinions or conclusions on each aspect of the subject matter information.</p> <p><b>.A33</b> A practitioner may report on subject matter information at multiple dates or covering multiple periods during which criteria have changed (for example, a practitioner’s report on comparative information). Criteria are clearly described when they identify the criteria for each period and how the criteria have changed from one period to the next. If the criteria for the current date or period have changed from the criteria for a preceding date or period, changes in the criteria may be significant to users of the report. If so, the criteria</p>

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
	and the fact that they have changed may be disclosed in the presentation of the subject matter information, or in the report, even if the subject matter for the preceding date or period is not presented.
<i>k</i> The manual or printed signature of the practitioner’s firm.	
<i>l</i> . The city and state where the practitioner’s report is issued. (Ref: par. .A34)	<b>Location (Ref: par. .12l)</b> <b>.A34</b> In the United States, the location of the issuing office is the city and state. In another country, it may be the city and country.
<i>m</i> . The date of the report. (The report should be dated no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base the practitioner’s opinion, including evidence that <ul style="list-style-type: none"> <li>i the attestation documentation has been reviewed, and</li> <li>ii. if applicable, the written presentation of the subject matter information has been prepared (Ref par. .A35–.A36)</li> </ul>	<b>Date (Ref: par. .12m)</b> <b>.A35</b> Including the date of the practitioner’s report informs the intended users that the practitioner has considered the effect of the events that occurred up to that date on the subject matter information and the report.  <b>.A36</b> The practitioner is not in a position to conclude that sufficient appropriate evidence has been obtained until evidence is obtained that all the elements that the subject matter information comprises, including any related notes, when applicable, have been prepared.

.A37 .

## **Exhibit: Illustrative Direct Examination Reports**

### **Example 1**

Circumstances include the following:

- The practitioner has
  - measured XYZ Company's investment transactions (the underlying subject matter) based on specified criteria to determine the rates of return on those investment transactions and
  - presented the rates of return on the investment transactions in a schedule of investment returns (subject matter information).

**In Example 1, comment bubbles have been inserted to map the required report elements in paragraph 12 to those elements in the illustrative report.**

### **Independent Accountant's Report**

[Appropriate Addressee]

We have examined [identify the subject matter information, for example, the rates of return on investment transactions included in the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX]. XYZ Company's management is responsible for [identify the underlying subject matter, for example, its investment transactions and maintaining a record of those transactions]. Our responsibility is to

- measure (or evaluate) [identify the underlying subject matter, for example, the investment transactions] of XYZ Company for the year ended December 31, 20XX, based on [identify the criteria, for example, the ABC criteria set forth in Note 1] to determine the rates of return on those investment transactions. We have presented the outcome of our measurements in the accompanying schedule of investment returns.
- ; and
- express an opinion that conveys the results of our measurement (or evaluation) of the [identify the underlying subject matter, for example, the investment transactions of XYZ Company for the year ended December 31, 20XX] based on our examination.

Our direct examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether [identify the underlying subject matter, for example, the investment transactions as presented in the schedule of investment returns] are in accordance with (or based on) [identify the criteria, for example, the ABC criteria set forth in Note 1], in all material respects. A direct examination involves measuring or evaluating [identify the underlying subject matter, for example, the investment transactions of XYZ Company for the year ended December 31, 20XX] against [identify the

*criteria , for example, the ABC criteria set forth in Note I]* and performing other procedures to obtain evidence about [*identify the subject matter information, for example, the rates of return on the investment transactions as presented in the schedule of investment returns*]. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of [*identify the subject matter information, for example, the rates of return on the investment transactions as presented in the schedule of investment returns*], whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

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

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

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

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

[*Signature of the practitioner's firm*]  
[*City and state where the practitioner's report is issued*]  
[*Date of the practitioner's report*]

## Example 2

Circumstances include the following:

- The practitioner has
  - evaluated a daycare center's safety practices and implementation of those practices based on criteria established by an educational organization. (The underlying subject matter is the daycare center's safety practices and implementation of those practices.)

- expressed an opinion about whether the daycare center's safety practices and implementation of those practices were in accordance with the criteria (The practitioner's opinion is the subject matter information.)

### Independent Accountant's Report

[Appropriate Addressee]

We have examined [identify the underlying subject matter, for example, *Indulgent Daycare Center's safety practices and its implementation of those practices during the year ended December 31, 20XX*]. Indulgent Daycare Center's management is responsible for [identify the underlying subject matter, for example, *its safety practices and its implementation of those practices*]. Our responsibility is to measure (or evaluate) [identify the underlying subject matter, for example, *Indulgent Daycare Center's safety practices and its implementation of those practices during the year ended December 31, 20XX*] based on [identify the criteria, for example, *XYZ Educator's Best Safety Practices for Daycare Centers*] and to express an opinion based on our examination.

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

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

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

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

In our opinion, [*identify the underlying subject matter, for example, Indulgent Daycare Center's safety practices and its implementation of those practices during the year ended December 31, 20XX*], were in accordance with (or based on) [*identify the criteria, for example, XYZ Educator's Best Safety Practices for Daycare Centers*], in all material respects.

[*Signature of the practitioner's firm*]

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

[*Date of the practitioner's report*]