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Attestation Services: Opportunity For Practice Growth

By: Glenn L. Helms and **Kennard S. Brackney**

Abstract

Discusses the importance of exploring the impact of the attestation standards on the nature and scope of public accounting. Purpose for adopting the attestation standards in the mid 1980s; Details on attestation standards; Areas of practice.

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ATTESTATION SERVICES: OPPORTUNITY FOR PRACTICE GROWTH

By Glenn L. Helms and Kennard S. Brackney

AUDITING

The market for traditional accounting and audit **services** is relatively stable and demand for such **services** is not expected to increase significantly in the foreseeable future. The public accounting profession seeks to expand the nature and scope of its **services** to include an emerging area of practice--assurance **services**. These new **services** should provide the profession with new practice opportunities in the long run. However in the short run, practitioners can use their existing knowledge base to expand a relatively newly established nontraditional area of practice--**attestation services**.

The **attestation** standards were adopted in the mid 1980s to furnish guidance to practitioners who provided nontraditional attest **services** and in response to a perceived demand for these **services**. Relative to traditional audits of historical financial statements, **attestation services** provide the auditor the opportunity to render opinions on a much broader range of client assertions. CPAs who perform traditional audits of historical financial statements can apply existing audit knowledge, skills, and abilities and include **attestation services** in their portfolio of **services**.

Exploring the impact of the **attestation** standards on the nature and scope of public accounting is potentially of great benefit as this nontraditional area of practice provides CPAs the opportunity to expand their practices in a relatively short time frame. We conducted a survey of small, medium, and large public accounting firms' offices to obtain an understanding of impact of **attestation services** on public accounting practice, to identify examples of this type of **service**, and to explore possible barriers that might restrict the expansion of this **service**.

[Attestation Standards](#)

The **attestation** standards provide guidance to the auditor when providing varying levels of assurance on a written assertion made by a client or a third party. Similar to traditional audits of historical financial statements and historical financial data, the CPA can provide either positive or limited assurance on the written assertion and can also perform agreed-upon procedures. The assertion can be financial or nonfinancial in nature. Additionally, the auditor's report can be for either general or restricted distribution.

The assertion must be capable of reasonably consistent estimation or measurement and be based upon criteria established by a recognized body or stated in a sufficiently clear and comprehensive manner for a knowledgeable reader to understand them. To conduct an **attestation service**, the CPA must be independent, exercise due professional care, have training and proficiency in the attest function, and be knowledgeable in the attest subject matter.

Table 1 contains an extensive list of financial and nonfinancial **attestation services** that have been provided by practitioners. The examples of **attestation services** include those that are primarily financial in nature, such as attesting to contract costs and current values of real estate. Additionally, the examples include those that are primarily nonfinancial in nature, such as attesting to product claim validity and statistical survey results.

[Areas of Practice](#)

To obtain an understanding of the impact of **attestation** standards on public accounting practice, 971 CPAs were selected at random from members of the AICPA who indicated they practice public accounting. Data concerning the nature and scope of **services** were accumulated by individual offices. Firms with multiple offices could therefore be represented more than once in the responses. A response rate of 15% was achieved.

CPAs were asked to estimate the percentage of their office's professional time to be devoted to traditional and nontraditional **services** in the year 2000. These prospective data will permit CPAs in various sized firms to react to their colleagues' marketing strategies.

Table 2 contains a profile of professional **services** expected to be provided in the year 2000 categorized by firm size. Small firms (10 or fewer professional staff) constituted 73% of the respondents. The small firms expect that nearly three quarters of their practice will be devoted to individual tax, compilation and bookkeeping, corporate tax, personal financial planning, and other **services**. The medium-sized firms (11 to 100 professional staff), who comprise 12% of the respondents, expect just over half of their practice to be comprised of these **services**. The large firms (over 100 professional staff) provided 15% of the responses and anticipate that just over a quarter of their practice will be devoted to these areas. Management consulting will comprise 26% of large firms' practice, 10% of medium firms, and eight percent of the small firms. **Attestation**, audit, and review **services** will comprise 45% of large firms' practice, 38% Of medium firms', and 17% Of the small firms' practice.

It appears the large firms, who have always led other firms in traditional audit work, will incorporate nontraditional **attestation services** in their practice. In fact, large firms expect 23% of their attest **services** to be nontraditional. Medium firms also believe **attestation services** will be a substantial revenue generator as they expect 18% of all attest work to be nontraditional. Small firms anticipate that only 13% of their **attestation** work will be nontraditional. Large firms will be leaders in the nontraditional attest area. This is not surprising, since large firms were first to pursue this practice area as they could easily build upon existing audit competencies to expand a similar **service** area.

[Overcoming Barriers](#)

Even though nontraditional **attestation services** are expected to be a significant portion of the total attest **services** area, they are expected to constitute a relatively small share of a firm's total **service** portfolio. Since leaders in the profession believed there was a large demand for **attestation services**, additional survey questions were posed seeking reasons why **attestation services** are not expected to grow at a more substantial rate. Firms were asked to rate the

importance of reasons why they declined **attestation** engagements and the importance of factors that restrict the expansion of **attestation services**.

Table 3 provides the weightings for reasons firms declined **attestation** engagements. Small firms declined engagements due to limited knowledge of the attest subject matter and lack of training and proficiency in the attest function. This is understandable as small firms expect to have a low percentage of their total practice devoted to attest **services** and would not be proficient to perform these **services**. Small firms can incorporate **attestation services** in their practice by obtaining training and proficiency in the attest function and also obtaining knowledge of a variety of attest subject matters. The small firm has an opportunity to become a "boutique practice" by structuring its marketing strategy to include an increasing array of **attestation, services**. A high degree of expertise is not required to provide many attest **services** where the assertions are clearly stated so that a knowledgeable reader can understand them. For example, a high degree of expertise is not required to attest to the length of a conga line (for reporting in the Guinness Book of World Records).

The medium and large firms declined **attestation** engagements for similar professional reasons. The major reason is that the proposed engagements contained assertions that were not capable of evaluation against reasonable criteria. A second reason for declining engagements is that the assertions were not capable of reasonably consistent estimation or measurement. These practitioners declined engagements as the work could not be conducted in accordance with existing professional standards. The reasons for declining engagements were due to issues beyond the practitioners' control. Nonaccounting professional bodies must develop reasonable criteria and consistent measurement techniques before a practitioner can perform many types of **attestation** engagements. Where reasonable criteria and consistent measurement techniques do not exist, accounting professionals may be able to play a role in helping nonaccounting professional bodies develop them.

Practitioners were also asked to rank factors that impact the inability of their firm to expand attest **services**. These results are shown in Table 4. All firms indicated that the most important reason inhibiting the expansion of the attest function was the lack of demand for these **services**. Since **attestation services** is a relatively newly established area of practice, it would appear this **service** needs to be marketed both to existing clients and to a nontraditional market. Practitioners should broaden their viewpoints and pursue **attestation** engagements that have been the realm of nonaccounting organizations. The CPA, by building upon existing competencies or using the work of a specialist, can attest to a wide range of nontraditional assertions. For example, the CPA, similar to professionals at Consumer Reports, can attest to the quality of certain consumer products. Also, similar to Underwriters Laboratories, the CPA can apply a seal of approval to a broad range of electrical appliances.

Another reason for not expanding the **attestation service** area is that small and large firms are concerned about the effect on liability exposure. The CPA cannot eliminate professional liability risk. However, the practitioner can control this risk and reduce it to a relatively low level. For example, liability risk can be reduced if the practitioner were to provide primarily agreed-upon procedures or limited assurance engagements whose reports are restricted to named parties.

Additionally, CPAs could limit attest **services** solely to written assertions that are sufficiently clear for a knowledgeable reader to understand them.

Small and large firms were concerned about the ability to satisfy the evaluation against reasonable criteria condition and also to fulfill the adequate knowledge requirement. As noted earlier, neither large or small firms can force professional nonaccounting organizations to estate fish reasonable criteria against which assertions can be evaluated for compliance. However, both large and small firms can overcome the adequate knowledge requirement either through continuing education or by recruiting staff with appropriate competencies.

The only other major factors restricting the expansion of **attestation services** are that large firms were concerned about satisfying the independence requirement and about the effect that **attestation services** might have on perceived audit quality. Professional standards specify that independence and audit quality issues can be controlled through rigorous enforcement of a firm's quality control standards. Internal monitoring and external peer reviews should provide assurance that firms are adhering to professional standards.

TABLE I EXAMPLES OF ATTESTATION ENGAGEMENTS

Primarily Financial Assertions

Ad valorem and realty tax bases
Antitrust case data
Budget compliance
Compliance with debt covenants when financial statements have been audited
Contract costs Continued existence
Cost data for government subsidized drugs
Cost reimbursement
Current values of real estate
Financial feasibility of rapid transit system
Financial forecasts and projections
Grocery prices (lower than competitors)
Information supplementary to the financial statements
Insurance claims data
Investment performance statistics
Labor negotiations data
Lease payment contingencies
Management discussion and analysis
Political contributions and expenditures
Price comparisons with competitors
Pro forma financial information
Reorganization and bankruptcy plans
Royalties
Segment or interim data

Primarily Nonfinancial Assertions

Accuracy of college textbooks
Audience and circulation data
Auto dealer comparison of their model with competitor's

model (mileage, acceleration, etc.)
 Compliance with statutory, regulatory, and contractual requirements
 Descriptions of computer software
 Descriptions of systems of internal control
 Election results
 Inventory quantities and locations
 ISO 9000 compliance
 Length of conga line (for the Guinness Book of World Records)
 Management audits
 Market feasibility data
 Occupancy, attendance, and enrollment statistics
 Oxygen content of gasoline
 Product claim validity
 Productivity indicators
 SAT statistics for entering freshmen at a college or university
 Schedules, of shopping center retailing space
 Software and hardware performance
 Statistical survey results

TABLE 2 PRACTITIONER'S EXPECTATIONS OF SERVICES TO BE PROVIDED IN THE 2000

	Small Firms	Medium-Sized Firms	Large Firms
Percentage of total respondents	73%	12%	15%
Attestation	2.2	6.8	10.6
Audits of financial statements	9.4	25.6	29.9
Compilations and bookkeeping	20.3	11.6	4.1
Corporate tax	16.0	18.6	12.8
Individual tax	30.2	17.2	7.4
Management consulting	8.1	10.5	26.3
Personal financial planning	5.2	2.4	3.7
Review	5.7	5.3	4.9
Other	2.9	2	0.3
	100%	100%	100%

TABLE 3 REASONS FOR DECLINING ATTEST ENGAGEMENTS

	Small Firms	Medium-Sized Firms	Large Firms
Training and proficiency in the attest function	3.7	2.0	2.8
Knowledge in the attest subject matter	3.9	3.2	2.9
Independence issues	2.2	1.4	3.1
Assertions were not capable of evaluations against reasonable criteria	2.8	3.4	3.5

Assertions were not capable
reasonably consistent
estimation or measurement 2.7 3.4 3.2

Scale: 1 is Not Very Important, 3 is Neutral,
5 is Very Important

[TABLE 4 REASONS FOR NOT EXPANDING ATTEST SERVICES .. Small Medium-Sized Large Firms](#)
[Firms Firms Demand for these services 3.7 4.2 4.4 Effect on liability exposure 3.2 3.0 3.8](#)
[Satisfying the evaluation against reasonable criteria requirement 3.3 3.1 3.8 Satisfying the](#)
[independence requirement 3.0 2.4 3.6 Satisfying the adequate knowledge requirement 3.4 2.8](#)
[3.3 Effect on perceived audit quality 3.0 2.8 3.3 Satisfying the written assertion requirement 3.1](#)
[2.5 3.0 Satisfying the reasonably consistent estimation or measurement requirement 3.2 3.0 2.9](#)
[Competition from non-CPAs 2.1 1.9 2.7 Scale: 1 is Not Very Important, 3 is Neutral, 5 is Very](#)
[Important](#)

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