

Open Discussion of Practice Issues

I. Objective of Agenda Item

To consider practice issues identified by ARSC members and those communicated to AICPA staff by other AICPA members and whether guidance should be developed and, if so, the form that such guidance should take (that is, a standard, additional guidance in the AICPA Guide, *Preparation, Compilation, and Review Engagements* (SSARs Guide) or other interpretative publication, or nonauthoritative guidance).

II. Issues for Discussion

1. Applicability of AR-C section 70, Preparation of Financial Statements

Paragraph .01 of AR-C section 70 states that the section applies when an accountant in public practice is *engaged* to prepare financial statements or prospective financial information. In addition, paragraph .02 of AR-C section 70 states that the determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to the section) is determined based on the services the client requests the accountant to perform and requires the accountant to apply professional judgment.

Additional guidance is provided in Chapter 3 of the SSARs Guide:

Applicability

Observations and Suggestions

To be “engaged” does not mean to obtain an engagement letter. Instead, it is what the accountant is hired to do. Obtaining an engagement letter is a required procedure after the accountant has been engaged. The understanding with the entity about what the accountant is engaged (that is, hired) to do is paramount in determining whether AR-C section 70 applies.

Observations and Suggestions

As part of the accountant’s bookkeeping services, the accountant may provide certain financial presentations to the client (for example, a trial balance) that do not constitute a financial statement. As such, although the accountant may apply, adapted as necessary, the provisions of AR-C section 70 to the preparation of a trial balance, the accountant is not required to do so.

Concern has been expressed that accountants may be determining that they are not engaged simply because no engagement letter with the client exists.

ARSC Consideration

The ARSC is asked to consider the preceding issue and whether additional guidance is necessary and in the public interest.

2. Design and Performance of Analytical Procedures and Inquiries

Paragraph .25 of AR-C section 70 reads as follows:

.25 In obtaining sufficient appropriate review evidence as the basis for a conclusion on the financial statements as a whole, the accountant should design and perform the analytical procedures and inquiries to address the following: (Ref: par. .A47)

- a. All material items in the financial statements, including disclosures
- b. Areas in the financial statements where the accountant believes there are increased risks of material misstatements

Concern has been expressed that accountants are not appropriately performing the requirement in paragraph .25*b* and instead are performing boilerplate analytical procedures and inquiries without consideration as to which areas in the financial statements have an increased risk of material misstatement. In presentations, AICPA staff and ARSC members have emphasized that “no two reviews should be the same.”

ARSC Consideration

The ARSC is asked to consider the preceding issue and whether additional guidance is necessary and in the public interest.

III. No additional agenda items presented