
EXPOSURE DRAFT

PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS

**Preparation of Financial Statements Performed Under SSARS and the
Impact on the Scope of Peer Review**

August 18, 2014

Comments are requested by October 31, 2014

**Prepared by the AICPA Peer Review Board for comment from persons
interested in the
AICPA Peer Review Program**

**Comments should be received by October 31, 2014 and addressed to
Tim Kindem, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
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or PR_expdraft@aicpa.org**

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August 19, 2014

The AICPA Peer Review Board (Board) approved issuance of this exposure draft, which contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the AICPA *Standards for Performing and Reporting on Peer Reviews* ("*Standards*").

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by October 31, 2014. Electronic submissions of comments or suggestions should be sent to PR_expdraft@aicpa.org by October 31, 2014.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after November 1, 2014 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards* and Interpretations, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* and Interpretations to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* and Interpretations are struck through, and new items are underlined). The Board is not required to expose changes to the Peer Review *Standards* Interpretations, but elected to do so to assist respondents with understanding the underlying intent of the proposed revisions to the *Standards*.

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review website at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

A handwritten signature in black ink that reads "Rick Reeder".

Richard W. Reeder
Chair
AICPA Peer Review Board

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Tim Kindem
Technical Manager
AICPA Peer Review Program

Explanatory Memorandum

Introduction

This memorandum provides background to the proposed changes to the AICPA *Standards for Performing and Reporting on Peer Reviews* (Standards) issued by the AICPA Peer Review Board (Board). The proposed changes would result in preparation services performed under the *Statements on Standards for Accounting and Review Services* (SSARS) being excluded from both the scope of peer review and the definition of an accounting and auditing practice for the purposes of these standards. This memorandum supports the exclusion of preparation services from the scope of peer review and solicits input on the proposal from all interested parties.

Background

On October 23, 2013, the Accounting and Review Services Committee (ARSC) issued an exposure draft titled “*Proposed Statements on Standards for Accounting and Review Services (SSARS): Preparation of Financial Statements, Compilation Engagements, and Association With Financial Statements.*” These proposed standards were developed in part to help determine whether the accountant, management or both prepared an entity’s financial statements. In order to address this issue, ARSC decided to revise the applicability of the compilation standards, so that those standards only apply when the accountant is engaged to perform a compilation engagement. Additionally, the preparation standards only apply when the accountant is engaged to prepare an entity’s financial statements. Subsequent to the issuance of its exposure draft, ARSC withdrew its proposal related to “Association With Financial Statements”. Therefore the Board’s exposure draft only considers the standards proposed related to the preparation of financial statements. The following link contains the aforementioned exposure draft and explains preparation services in detail:

http://www.aicpa.org/Research/ExposureDrafts/CompilationReview/DownloadableDocuments/20131023a_SSARS_ED_Prep_Comp_Assoc.pdf

Summary – ARSC’s Proposed *Statement on Standards for Accounting and Review Services - Preparation of Financial Statements*

The preparation of financial statements is a non-attest service and does not require the accountant to determine whether the accountant is independent of the entity. Additionally, the accountant is not required to verify the accuracy or completeness of the information provided by management, gather evidence to express an opinion or a conclusion on the financial statements, or otherwise report on the financial statements.

This proposed standard would apply when the accountant is engaged to prepare financial statements but is not engaged to perform an audit, review or a compilation on those financial statements. A report would not be required – even when financial statements are expected to

be used by or presented to a third party. Instead, the accountant would be required to include a legend on each page of the financial statements stating that no assurance is being provided. However, in the rare circumstance the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer (report) on the financial statements.

The proposed SSARS also require that the accountant obtain an engagement letter signed by both the accountant and the client's management. Like other non-attest bookkeeping/accounting services engagements, the accountant would not be required to consider whether he or she is independent. The proposed standard can be applied to financial statements with or without disclosures.

The accountant should prepare documentation in connection with each preparation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following:

- a. The engagement letter or other suitable form of written documentation with management
- b. A copy of the financial statements that the accountant prepared

The proposed SSARS *Preparation of Financial Statements* would be effective for the preparation of financial statements for periods ending on or after December 15, 2015 with early implementation permitted. ARSC is currently working to finalize the preparation standard. However, no significant changes are expected to be made to the legend, disclaimer report or the engagement letter.

Exclusion of Preparation Services from the Scope of Peer Review

The Board has considered the ARSC exposure draft, comments on the exposure draft, state board of accountancy (SBOA) implications, and other reasons (described further below) in concluding that preparation services should be excluded from requiring enrollment in peer review and the scope of peer review.

AICPA bylaws state that firms (or individuals in certain situations) are only required to enroll in the AICPA peer review program (Program) if they perform services that are within the scope of the AICPA's peer review standards and issue reports purporting to be in accordance with AICPA Professional Standards.

Paragraph 6 of the Standards currently indicates "an *accounting and auditing practice* for the purposes of these Standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS)*; Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards (see interpretations). Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection (see interpretations).

⁴ Statements on Standards for Accounting and Review Services that provide an exemption from those standards in certain situations are likewise excluded from this definition of an accounting and auditing practice for peer review purposes (see interpretations).”

The Board has noted there are no procedures that can be performed to assess the quality of the report, financial statements, or disclosures as in other engagements currently included within the scope of peer review.

If preparation services were within the scope of and selected in a peer review, the peer reviewer’s procedures would be limited to 1) determining that the “no assurance” legend is included on each page of the financial statements, 2) determining that a disclaimer report, if applicable, is issued, and 3) reviewing a properly signed engagement letter, which contains certain information required by SSARS.

The proposed SSARS does not require the financial statements to disclose the basis of accounting or related disclosures (or the omission of such disclosures). Accordingly, there are no procedures a reviewer can perform to determine the appropriate presentation of the financial statements.

The Board is concerned that, if preparation services are included in the scope of peer review, a user of financial statements prepared under the new SSARS service would inappropriately place reliance on the financial statements. Therefore, the Board does not believe including preparation services in peer review is in the public interest and believes the Standards should be revised to explicitly exclude such services from the scope of peer review.

Comment Period

The comment period for this exposure draft ends on October 31, 2014.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA’s website after November 1, 2014, for a period of one year.

Explanation of Proposed Changes

Revisions to *Standards*

The proposed changes include revisions to:

- Footnote 4 to Paragraph .06 to indicate that preparation services performed under SSARS are excluded from the scope of peer review and the definition of an accounting and auditing practice for the purposes of these standards.
- Paragraph .07 to indicate that engagements performed under the *Preparation of Financial Statements* standards, are excluded from the scope of the AICPA peer review program.

Revisions to Interpretations

The proposed changes include revisions to:

- Interpretation 7-2 to specifically mention that firms only performing compilations and/or reviews under SSARS or services under the SSAEs not included in System Reviews have peer reviews called Engagement Reviews. Preparation services would not be subject to the AICPA peer review program.

Guide for Respondents

The Board welcomes feedback from all interested parties on this proposal which would completely exclude preparation services (including those with disclaimer reports) from requiring enrollment in peer review. In addition, for firms enrolled in peer review because they perform other services/ issue reports included in the scope of peer review, preparation services would not be included in the scope of services included in the peer review.

1) Do you agree with this position? Please explain why you agree or disagree.

2) The Board is interested in receiving feedback as to whether any SBOAs plan to require peer review for firms performing “services under SSARS”, “issuing reports under SSARS” or any peer review requirements for engagements under SSARS that are not reviews or compilations. The Board would appreciate the applicable statute/regulation citations for any such requirements.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

Comments and responses should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by October 31, 2014. Respondents can also direct comments and responses to PR_expdraft@aicpa.org by October 31, 2014.

Effective Date

Final revisions to the *Standards* will be effective upon approval by the Board.

Proposed Revisions

Peer Review Standards

Overview

.06 An *accounting and auditing practice* for the purposes of these standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS)⁴; Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards (see interpretations). Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection (see interpretations).

⁴ Statements on Standards for Accounting and Review Services that provide an exemption from those standards in certain situations are likewise excluded from this definition of an accounting and auditing practice for peer review purposes (see interpretations). Preparation services performed under SSARS are excluded from the scope of peer review and the definition of an accounting and auditing practice for the purposes of these standards.

.07 The objectives of the program are achieved through the performance of peer reviews involving procedures tailored to the size of the firm and the nature of its practice. Firms that perform engagements under the SASs or Government Auditing Standards, examinations under the SSAEs, or engagements under PCAOB standards, as their highest level of service have peer reviews called System Reviews. A System Review includes determining whether the firm's system of quality control for its accounting and auditing practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including SQCS No. 8, in all material respects. Firms that only perform services under SSARS or services under the SSAEs not included in System Reviews are eligible to have peer reviews called Engagement Reviews⁵ (see interpretations). These standards are not intended for and exclude the review of the firm's accounting and auditing practice applicable to engagements subject to PCAOB permanent inspection and engagements performed under the *Preparation of Financial Statements* standards, which are excluded from the scope of the program (see interpretations). Firms that do not provide any of the services listed in paragraph 6 are not peer reviewed (see interpretations).

Peer Review Interpretations

Engagements Under Peer Review

7-2 Question—Paragraph .07 of the standards indicates that firms that perform engagements that are not subject to PCAOB permanent inspection under the SASs or Government Auditing Standards, examinations under the SSAEs, or engagements under PCAOB standards have peer reviews called System Reviews. Firms that only perform compilations and/or reviews ~~services~~ under SSARS or services under the SSAEs not included in System Reviews have peer reviews called Engagement Reviews. Is the System Review or Engagement Review determination based on the types of engagements a firm performs as its highest level of service?

Interpretation—Yes. The type of peer review determination is based on the engagements performed as its highest level of service.

(Reader's Note: As this interpretation's subsequent table was not modified, it has not been included in this exposure draft)