I fully agree that a Firm that only does Preparation of Financial Statements because it is a non-attest service should not be required to enroll in Peer Review. States would not be able to require Peer Review of these Firms for license renewal purposes as well.

Sincerely,

Robert
President & CEO

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REFERRAL AWARDS PROGRAM

Simply email us at robert@robertfishercpa.com. Upon receipt of your referral, one of our professional account representatives will contact your lead promptly within 1 business day, and we will send you $100 when they sign up! You can refer as many as you like.

If you are happy with our services, please feel free to write a positive review online about your experience with our firm.
Dear Sir or Madam,

My comments are regarding page 9 as shown under "P.S." below.

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

Yes and No.

Both old and new questions are clarifying 2 different issues that pertain to small CPA firms who need clear-cut answers without lengthy and/or ambiguous explanations.

So I suggest to keep the old Q&A, and add the new Q&A.

Thank you

Erling Wang
Peer Review Interpretations
Compilations Performed When the Compiled Financial Statements Are Not Expected to Be Used by a Third Party (Management Use Only), Where No Compilation Report Is Issued

6-3 Question— A firm is not required to enroll in the AICPA peer review program if it elects to enroll in the peer review program and its only level of service is performing compilations when the financial statements are not expected to be used by a third party (management use only) and when no report is issued. However, if the firm elects to enroll in the peer review program, is the firm required to have a peer review?

Interpretation— No. If a firm that elects to enroll in the peer review program, and its only level of service is performing management use only compilation engagements, it is not required to have a peer review, but may elect to do so. If a firm elects to undergo a peer review, the peer review is required to be performed under these standards.
December 19, 2014

Tim Kindem, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Dear Mr. Kindem:

The Peer Review Report Acceptance Committee of the Illinois CPA Society (Committee) is pleased to provide our comments on the 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. The Committee consists of 28 CPAs from public practice ranging in size from sole practitioner to large national firms. Experience on the Committee ranges from newly appointed to inception of the Program. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

General Comments

The Committee still agrees with the original proposal by the AICPA Peer Review Board (PRB) from August 18, 2014 to exclude preparation services from requiring enrollment in peer review and inclusion in the scope of peer review.

However, if the PRB chooses to move ahead with inclusion of preparation services in the scope of peer review, the Committee recommends certain changes to the proposal to simplify the Standards for all involved parties.

Alternate Position

The Committee still agrees that if a firm only performs preparation engagements under SSARS and no other engagements that would trigger the need for a peer review, the bylaw requirements should not require the firm to enroll in the Peer Review Program.

However, the Committee does not agree with the following from the proposal:

"…a preparation engagement is ONLY selected when certain requirements of paragraph .104 of the Standards cannot be met otherwise. Specifically, a preparation engagement is only selected if one of the individuals within the firm responsible for performing engagements/issuing reports only performs preparation engagements (and no other engagements within the scope of peer
review) or if a firm performs no other engagements with disclosures except for preparation engagements or if a firm performs no other engagements that omit disclosures except for preparation engagements.”

The Committee feels this complicates what is currently a very simple engagement selection process for Engagement Reviews and will only confuse all involved parties. If the PRB is going to include these engagements in the scope of peer review, the Committee feels these engagements should be listed and treated as a different level of service on the Scope of Work Performed for a System Review and on the Engagement Summary Form for an Engagement Review. For a System Review, a Team Captain would still use a risk-based approach to determine whether one or more of these engagements should be selected for review. For an Engagement Review, these engagements would be treated as a separate level of service and as such, selected for review as required under the current rules for engagement selection on an Engagement Review.

Additional Position (Also included in the Committee’s original response dated October 31, 2014)

It is the understanding of the Committee that the standard for preparation services will replace the standard for C-8 engagements, and that accountants will not be permitted to perform C-8 engagements for financial statements with periods ending on or after December 15, 2015. If that is the case, the Committee recommends the PRB provide additional guidance as to the peer review implications of a firm issuing one or more C-8 engagements with periods ending on or after December 15, 2015. Specifically, the PRB should provide guidance as to whether such engagements would result in a departure from professional standards and if so, whether the engagements would be deemed to not be in conformity with professional standards in all material respects (i.e., non-conforming).

Effective Date

The PRB must consider that as of the date of this letter, the Illinois CPA Society (and most likely many other administering entities) have already sent out background forms to firms with peer reviews due on or before June 30, 2015. It would be a huge burden on the administering entities to require them to go back to all of the reviews already scheduled to check if they have done any preparation services under the SSARS. The Committee feels that any revisions to the Standards cannot go into effect until preparation services are incorporated into the background forms available to be sent to the firms, as well as the checklists utilized by Team Captains, Review Captains, and Technical Reviewers.
The Illinois CPA Society appreciates the opportunity to express its opinion on this matter and would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Catherine Allen, CPA
Chair, Peer Review Report Acceptance Committee

Robert Giblichman, CPA
Vice-chair, Peer Review Report Acceptance Committee
December 18, 2014

Tim Kindem, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110


This response to the referenced exposure draft (ED) is submitted on behalf of the Peer Review Committee of the Oregon Society of CPAs (the Committee). These comments have no official status and do not represent the approval or disapproval of the ED by the Oregon Society of CPAs or its Board of Directors.

We applaud the Board’s decision to issue a revised ED on the treatment of financial statement preparation services in the peer review program.

While we concur with the Board’s decision to include preparation services as defined in SSARS No. 21 within the scope of peer review for firms already enrolled in the peer review program, we disagree with the Board’s choice to exempt from peer review firms whose practices are restricted to providing this service.

Although preparation engagements are defined in SSARS No. 21 as a non-attest service, the resulting financial statements will not be restricted use and may be relied upon by the public.

The public will not be able to distinguish this non-attest service from compiled financial statements. The only meaningful difference between the engagements is the method of communicating the accountant’s involvement to the user, either in a legend on each page of the financial statement for the preparation engagement, or in the accountant’s report for a compilation engagement. Matters communicated in the accountant’s report on nondisclosure compilation engagements, such as departures from the applicable financial reporting framework or the decision by management to omit substantially all disclosures, will be conveyed with the use of identical language on preparation engagements, except on the face of the financial statements or in a note to the financial statements instead of in a report.

Not only will the preparation service be indistinguishable from the compilation service in the eyes of the public, the time and effort expended by the accountant on these engagements will be comparable.
Neither preparation engagements nor compilation engagements require the accountant to verify the accuracy or completeness of the information provided by management. Both engagements require the accountant to request additional information from management if the records or other information used in preparing the financial statements are incomplete, inaccurate, or otherwise unsatisfactory. Both engagements allow the accountant to provide assistance to management with significant judgments on accounting policy and estimates, and on presentation and disclosure. Both engagements require a signed engagement letter.

The preparation service is perceived by many as a replacement for “management use only” statements and for interim financial statements prepared on accounting software.

We agree that the preparation service will be applied to those engagements formerly conducted under the standards for management use only engagements, and that the public will not be harmed so long as those engagements are circulated only among members of management. However, absent a restriction on their use, these financial statements will be distributed to and relied upon by lenders, investors and other members of the public. Therefore the preparation service rather than a replacement for is an expansion of the standards in this area to a degree warranting coverage under peer review.

With respect to interim financial statements prepared on accounting software such as QuickBooks, SSARS No. 21 proposes to solve a problem the profession has already solved. The problem was how to integrate QuickBooks engagements with our professional standards. The solution was and is to treat these engagements as bookkeeping engagements. Under the recently superseded standards for compilation, an accountant had to both prepare and present the financial statements to elevate a bookkeeping engagement to a compilation service. Accountants rarely both prepare and present on QuickBooks engagements. Under SSARS No. 21, these bookkeeping engagements retain their character; they do not become a preparation service.

Even if circumstances require the accountant to prepare and present interim financial statements, the preparation service under SSARS No. 21 does not differ substantively from the compilation service. In the past a firm preparing interim financial statements might have generated a balance sheet and income statement from QuickBooks, tailored the titles to indicate the income tax basis of accounting was used, included a legend on each page asking the user to “see accountant’s report” and, after obtaining an engagement letter, issued a compilation report with boiler plate language stating no assurances were offered. If there were departures from the income tax basis, the accountant described the departures in the report. Preparing the same financial statements but now under the standards for preparation service, the firm generates a balance sheet and income statement from QuickBooks, tailors the titles to indicate the income tax basis of accounting is used, includes a legend on each page advising the user that the firm offers no assurances and, after obtaining an engagement letter, presents the statements to the client. If there are departures from the income tax basis, the accountant describes the departures in selected footnotes. The same effort is required. The only significant difference is that the compilation is subject to peer review, while the preparation service is not.
Instead of solving a problem, SSARS No. 21 creates a new, more vexing, one. It is a problem the AICPA Peer Review Board could resolve by subjecting firms that perform preparation services to peer review.

That problem is the potential for a new category of CPA firm, a kind of second tier CPA firm. Such firms will undertake to convert their compilation practice to a preparation services practice. These firms will potentially withdraw from the peer review program, cease to obtain continuing education on the topic of accounting standards, and unsubscribe from the third party practice aids and other library materials that currently support their accounting practice. If performed properly, a financial preparation engagement requires the same professional care and time commitment as a compilation engagement, yet such firms will not have the education or the tools to perform their engagements adequately. The result will be lower quality work that the public will rely upon to the same extent as it does a compilation engagement. Such engagements should be peer reviewed.

If the risk assessment concepts used in peer review were to be applied at the firm level rather than the engagement level, firms restricting their practice to preparation services would be more deserving of peer review than firms issuing compilation reports.

Another concern we have is that exempting some, but not all, CPA firms from peer review is contrary to the recent trend in our profession for mobility among states and territories. Nearly all states now have mobility for individual licensing and many have implemented firm mobility. By allowing states and territories to decide individually whether firms whose practices are limited to preparation services should be peer reviewed, the ED is decreasing mobility when the trend has been to increase mobility. If the Peer Review Board requires AICPA member firms with practices limited to preparation services to undergo peer review, conflicts among the states and territories will be reduced, and mobility will be increased. We believe the AICPA should take the high road and promote standards that increase rather than decrease mobility.

In addition to performing an educational function for CPA firms, peer review serves the public interest, but it is not in the public’s interest to establish a category of firm exempt from peer review. If the public is relying on a financial statement then that financial statement should be subject to peer review.

Thank you for considering our comments on this important issue.

Sincerely yours,

Rick Proulx, CPA, Chair
Oregon Society of CPAs Peer Review Committee
December 30, 2014

Tim Kindem, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Re: 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

Dear Technical Manager, Board Members and Staff:

The Peer Review Committee of The Ohio Society of Certified Public Accountants is pleased to respond to the invitation to comment on the AICPA’s 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.

The committee is not in support of the “revised” exposure draft. The committee still feels that if preparation standards are part of the professional standards they should in fact be covered by the peer review process and not carved out and excluded from peer review. This point is further supported by the fact that statements under preparation services could be used by third parties and the public interest would not be served by excluding these services from the scope of the review. Any statement prepared by a CPA will always have at least some reliance placed on it.

The committee also feels that there are sufficient procedures within the Standards to allow peer review to occur. These procedures would be somewhat analogous to the procedures currently included for the review of management-use-only ("SSARS 8") compilations. In particular, reviewing the engagement letter would be a critical procedure relative to the preparation of financial statements, since it establishes the applicable financial reporting framework. Preparation procedures also require ensuring that the applicable financial reporting framework is disclosed on the face of the financial statements, along with a “no assurance” legend (or an accompanying disclaimer.) We believe that in many cases, preparation will result in departures from the applicable financial reporting framework, the omission of statements of cash flows, and/or the omission of substantially all disclosures; these matters are also required by SSARS to be disclosed on the face of the financial statements or in a note. Non-compliance with these provisions of the Standards would create material non-compliance which could result in misleading financial statements. This is clearly not in the public interest. We believe that there is a high risk of non-compliance with these provisions which could be reduced by including preparation services within the scope of a peer review.
We appreciate the opportunity to provide feedback to the 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 and welcome any additional opportunities to further discuss the matter.

Sincerely,

[Signature]

Mark A. Malachin, CPA
Chairman, Peer Review Committee
December 29, 2014

Tim Kindem
Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

RE: Comments to 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 the Peer Review Dated November 18, 2014

Dear Mr. Kindem:

These comments are submitted on behalf of the Peer Review Committee of the Indiana CPA Society (the Committee). These comments have no official status and do not represent the approval or disapproval of the exposure draft by the Indiana CPA Society or its Board of Directors.

The Committee appreciates the opportunity to offer our comments on the AICPA Peer Review Board’s proposed changes to the Peer Review Standards.

As was stated in our previous response to the exposure draft dated August 18, 2014 on the same topic, the Committee disagrees with the AICPA Peer Review Board’s proposed changes to the Peer Review Standards to exclude Preparation of Financial Statements services from the peer review process. We believe it to be in the best interest of the public to require all firms that perform services within the scope of AICPA professional standards are subject to peer review requirements to maintain the quality of the work that is made available to the general public. This would include firms that only issue preparation engagement services.

The peer review program was created to enhance the quality of accounting, auditing and attestation services performed by AICPA members in public practice. As the Preparation of Financial Statements services are defined in the Standards for Accounting and Review Services, they fall under the definition of “accounting” services per paragraph 6 of the peer review standards and would be subject to peer review in order to maintain the quality of the accounting work performed by AICPA members. To exclude the Preparation of Financial Statements services is inconsistent as the peer review process monitors not only the reporting and performing aspects of a financial statement engagement but also knowledge of the applicable reporting framework under which the financial statements are prepared.
The Statements on Standards for Accounting and Review Services (SSARS) #21 includes Preparation of Financial Statements as a separate service. We see very little difference between a compilation service and a preparation of financial statement service performed by the CPA. The end product of either service is a financial statement prepared in accordance with a financial reporting framework (i.e. GAAP, cash basis, tax basis) without the CPA’s verification of the accuracy or completeness of the information provided by management.

Both services require the accountant to have knowledge and an understanding of the entity’s financial reporting framework (they must know GAAP, cash basis, tax basis, etc.). This is a requirement for any type of financial statement engagement, audit, review or compilation. In a compilation, if an accountant becomes aware of a material departure from the applicable framework the financial statements are prepared under, they are required to propose an adjustment to the financial statements to correct the statements or note the departure in the accountants’ report. If the accountant were to prepare the financial statements under Preparation of Financial Statement standards, they would be required to prepare the financial statements in accordance with the applicable framework and correct an error before issuing the financial statements. If the financial statements are not corrected, the accountant must disclose the departure in the financial statement. Therefore, whether a client engages an accountant to prepare or compile the financial statements, the engagement should result in the financial statements either being corrected or the departure disclosed. We think you would agree that if an accountant was first asked to prepare the financial statements of a client and then later engaged to compile the same set of financial statements, the amounts and disclosures in the financial statement should be exactly the same.

Both services provide no assurance on the financial statements. Under the SSARS #21 it states in section 80 Compilation engagements paragraph .02 “Because a compilation engagement is not an assurance service...” It also states in Section 70 Preparation of Financial Statements paragraph .14, that each page of the financial statements include a statement that “No assurance is provided or issue a disclaimer that makes clear that no assurance is provided or perform a compilation engagement in accordance with section 80”. So in a compilation, the CPA express no assurance in the compilation report and in a preparation service, the CPA express no assurance on each page of the financial statement. Both services express no assurance should be placed on the financial statements.

Both compilation and preparation services require engagement letters that are similar in their content.

Both compilation and preparation services require the accountant to prepare and maintain documentation that includes the engagement letter and a copy of the financial statements.

Both compiled and prepared financial statements can go to users outside of the entity’s management such as lending institutions, bonding companies, current shareholders, potential investors and vendors. Because outside users can be using the statements, we believe the public’s interest is best served when financial statements either compiled or prepared by a CPA are monitored (peer reviewed) to insure the quality of the work, whether or not the review firms only engagements are Preparation of Financial Statements.
In the current exposure draft on page 5 it states, “AICPA bylaws state that firms (or individuals in certain situations) are only required to enroll in the Program if they perform services that are within the scope of the Standards and issue reports purporting to be in accordance with AICPA professional Standards”. We think we would all agree that firms that only perform Preparation of Financial Statements services are performing those services “within the scope of the Standards” as they are preparing the financial statements under SSARS #21. It is our understandings that the conclusion that the AICPA is drawing with regards to why they are excluding firms from the peer review process that only perform Preparation of Financial Services engagements is that the issuance of financials statement under the Preparation of Financial Statement Standards do not include “…reports purporting to be in accordance with AICPA professional Standards”. While drawing this conclusion may be technically correct as no report accompanies Preparation of Financial Statement engagements, would not a user of Preparation of Financial Statement engagements assume the firm who issued the Preparation of Financial Statement engagement performed it in accordance with AICPA professional standards even without a report that states so? We believe that substance over form applies here in that the users of compilations or preparation engagement services expect the work to be performed in accordance with applicable AICPA professional standards. The lack of a report that accompanies the statement should not be interpreted to mean that the preparation engagement service was not performed in accordance with AICPA professional standards.

In addition, we believe that the AICPA bylaws were written to only require firms to enroll in the peer review program if the services they performed included a “report” was done to exclude management use only financial statements from peer review when firms were only doing management use only financial statements. We agree that this was a proper conclusion made to exclude these firms from peer review because the statements were not made available to the general public. Now that preparation engagement services are available to the public, we believe that preparation of financial services should be subject to peer review in the best interest of the general public. Therefore, this may require a change to the bylaws to include preparation engagement services in peer review even though these statements do not include a report.

We believe that excluding the preparation of financial statements services from the peer review process would be a disservice to the public. If a client engages a CPA to prepare financial statements in accordance with an applicable framework of accounting, would the “general public” not expect to see a set of financial statements prepared in accordance with that applicable framework of accounting? Isn’t that what the client is paying the CPA to do? While the CPA takes no responsibility with regards to the underlying accuracy or completeness of the information provided by the client, the CPA still has the responsibility to understand the applicable financial reporting framework and to prepare the statements accordingly. Because the client has hired the CPA to prepare their financial statements in accordance with GAAP, let’s say, should not the CPA inquire about GAAP related accounting issues such as accounting for leases, depreciation methods, compensated absences, bonus arrangements, etc. when preparing the GAAP basis financial statements? If the CPA fails to prepare the financial statements in accordance with the applicable financial reporting framework, shouldn’t that be something we, as a profession, want to make sure gets corrected? And the method to monitor how the accountant is performing in their accounting practice is the peer review process.
We also believe that creating an exemption from peer review for firms that only prepare financial statements, creates a double standard for firms that prepare other financial statement engagements. The double standard would be confusing to financial statement users and the general public. How are financial statement users and the general public going to understand that a preparation engagement service performed under professional standards of the AICPA is only subject to peer review in some CPA firms and not in all CPA firms? Is the work product not the same?

We believe that the general public holds the CPA designation in very high regard. The work product of a CPA should be of the highest quality regardless of any assurance or non-assurance levels provided on the financial statements. As a profession we hold ourselves out as experts in accounting services which, in our opinion, covers the preparation of financial statements in accordance with an applicable financial reporting framework. We should want to include the preparation of financial statements in the peer review process to maintain the quality of that work.

We believe the general public will have a very hard time differentiating between a compilation service and a preparation of financial statement services let alone understand why the former is peer reviewed and the latter not always when the work product at the end of either service is the same.

If you have questions or need further clarification of our comments, please contact Nichole Favors, Peer Review Manager of the Indiana CPA Society Administering Entity.

Respectfully submitted,

Charles J. Naber, CPA
Indiana CPA Society Peer Review Committee, Chair
Re: Exposure Draft – Preparation of Financial Statements Performed under SSARS and the Impact on Enrollment in and the Scope of Peer Review

I am NOT in agreement with the PR Board positions regarding the new AICPA SSARS Standard for “Preparation” of financial statements (AR 70). While I was not in agreement with the new SSARS level of service, now that it has been issued it should be treated the same as other professional standards and subjected to peer review.

Specific comments to the sections of the ED:

.07 – The proposed change to “excuse” from peer review firms that only perform Preparation Engagements would basically create two classes of practitioners:

- those that also perform other SSARS engagements that are subject to peer review (i.e., compilations and reviews) and thus their Preparation Engagements are therefore subject to PR, and
- those practitioners who don’t perform other SSARS engagements, and thus their Preparation Engagements would not be subject to PR.

I believe this will cause confusion among practitioners and the users of SSARS engagements. In addition, my PR experience indicates that the practitioners who will only perform Preparation Engagements are most likely the ones who will not bother complying with (or may be ignorant of) the requirements of AR 70 (specifically, engagement letters and appropriate legends on the financial statements).

This exclusion from enrollment in the AICPA program would have impact only on AICPA members and may be moot, given that some SBOAs may require that Preparation Engagements be subject to PR, just as many SBOAs have with SSARS 8 “Management Use Only” engagements.

Engagement Reviews

.104 – The addition of Preparation Engagements to the required engagement listing is prima facie evidence that such engagements are now recognized as another level of service covered by professional standards. This is a strong argument against exclusion of such engagements from PR for some practitioners as proposed in .07 above.

.104 c. – Carving out Preparation Engagements under some circumstances and not others will be very confusing to firms being reviewed, their peer reviewers, technical reviewers, and peer review committees, adding to peer review time and costs. I believe that PR engagement selection should be based on the applicable professional standards. Since Preparation Engagement are now recognized in a separate standard section (AR 70), they should be treated as a separate level of service, subject to independent selection when present. Consideration should be given to differentiation between financial statements with and without disclosures as is presently done for Compilation Engagements (AR 80).

Interpretations

7-3 and 7-4 – These Q/As are so obvious, but they does point out situations that would create two classes of practitioners as noted above.
Finally, I must comment on the process selected by the PR Board for comments from interested parties to this Exposure Draft. It was issued on November 18, 2014, just before the Thanksgiving and ensuing holidays, with a comments closing date of January 2, 2015 (today). The Board must have known that this gave a very narrow window for consideration and response, especially when the details of the new SSARS 21 standard (creating AR 70 and this situation) had barely been made available in final form. In the interest of encouraging full participation by interested parties I would encourage the PR Board to extend the comment period on this Exposure Draft.

I appreciate the opportunity to comment on the referenced ED proposing changes to the AICPA PR Standards.

Very truly yours,

Edward E. Gray, CPA
AICPA #317315

Edward E. Gray, CPA
7608 Kilmichael Lane, Dallas TX 75248-2341
Ph. 972-977-0148
January 2, 2015

Tim Kindem
Technical Manager, AICPA Peer Review Program
AICPA
220 Leigh Farm Rd
Durham, NC 27707-8110

Mr. Kindem,

The Georgia Society of CPAs Peer Review Executive Committee recently met to discuss the exposure draft related to Preparation of Financial Statements Performed under SSARS and the Impact on Enrollment in and the Scope of Peer Review. The Georgia Society of CPAs (GSCPA) appreciates the time and effort the AICPA took in order to determine whether or not Preparation of Financial Statements should be included in the scope of the peer review.

GSCPA’s Peer Review Executive Committee agrees with not requiring firms that perform Preparation of Financial Statements to be enrolled in the Peer Review Program. However, we do have concern regarding the Georgia State Board of Accountancy’s requirement which may or may not require the firm to remain enrolled in the program. If a firm is required to remain enrolled and the only level of service performed is preparation of financial statements, we recommend allowing the firm to remain enrolled, but at the no accounting and auditing level with annual confirmation. This would allow them to meet the State Board requirement of enrollment in a practice monitoring program and not have the peer review unless the type of work performed by the firm changes.

Sincerely,

Bob Bennett, CPA
GSCPA Peer Review Executive Committee Chair

Boyd E. Search, CAE
GSCPA Chief Executive Officer
January 4, 2015

Mr. Tim Kindem, Technical Manager
AICPA Peer Review Program
220 Leigh Farm Road
Durham, NC 27707-8110

Re: November 18, 2014 AICPA Peer Review Board Exposure Draft (ED) of 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 Enrollment in and the Scope of Peer Review

Dear Mr. Kindem:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms’ interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

In TIC’s response to the original ED of 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, TIC supported the Peer Review Board’s proposal to exclude preparation services from the scope of the AICPA’s peer review program. TIC agreed with the Board’s conclusion on page 6 of the original ED that financial statement users may inappropriately place reliance on the financial statements prepared by the accountant if they were subject to peer review.

TIC’s support for the original ED was based on the fact that the preparation standard is a nonattest service that has no requirement for the accountant 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. Therefore, there would be little value derived from a public interest perspective in requiring preparation services to be subject to peer review.

TIC understands that the Board has received feedback that many state boards of accountancy (SBOAs) require peer reviews of professional services performed in accordance with SSARS without specifically excluding preparation engagements. As
mentioned above, TIC agrees with the Board’s concerns that users of these financial statements could place undue reliance on financial statements prepared in accordance with the preparation standard. TIC also acknowledges the Board’s concerns relating to facilitating AICPA members’ and others’ compliance with SBOA licensing requirements and to mitigating any mobility challenges that may arise if these engagements are excluded entirely.

With this understanding, TIC agrees with the proposed changes that state a firm is not required to enroll in the AICPA peer review program if it only performs engagements in accordance with Section 70, *Preparation of Financial Statements* (preparation engagements), of SSARS 21, *SSARs: Clarification and Recodification*. TIC also agrees that preparation engagements should be included in the scope of a peer review when a firm either elects to enroll in the program (e.g., to comply with licensing or other requirements) or is already enrolled due to other engagements it performs.

Below are specific comments and concerns related to the proposed revisions in the ED.

**SPECIFIC COMMENTS**

**Interpretation 104-2 – Engagement review procedures for a preparation engagement**

In accordance with proposed Interpretation 104-2, the peer reviewer would

> perform procedures to determine whether the presentation of the financial statements is appropriate and that the disclosures are adequate based on the applicable financial reporting framework. If substantially all disclosures are omitted, the reviewer would need to determine whether the appropriate label is present for any disclosures that are made. [Emphasis added]

Section 70 of SSARS No. 21 requires the accountant to disclose material misstatements in the financial statements when, after consultation with management, the accountant prepares the financial statements with known departures from the applicable financial reporting framework (SSARS 21, Section 70, paragraph 18) or with substantially all disclosures omitted (SSARS 21, Section 70, paragraph 19).

TIC believes the proposed interpretation should also address whether the peer reviewer would be required to cite a "matter/finding/deficiency" if it came to the reviewer’s attention that the financial statements included a departure from the applicable reporting framework (other than the omission of substantially all disclosures) that the accountant who prepared the financial statements was aware of but failed to disclose. Unlike the omission of substantially all disclosures, such departures may or may not be readily apparent to the reviewer.

However, the omission of the disclosure required by SSARS 21, Section 70, paragraph 18, would represent a violation of professional standards (if material). TIC believes the omission of the disclosure of known departures from the applicable financial reporting
framework of which the accountant who prepared the financial statements is aware or should reasonably be aware could occur fairly frequently in practice. TIC therefore recommends that the proposed interpretation be revised to reflect the Board’s views on this issue.

Although a peer reviewer could not be held responsible for detecting all nondisclosure of material misstatements of which the accountant who prepared the financial statements is aware, TIC believes that such undisclosed known misstatements that come to the reviewer’s attention during the course of the peer review should be subject to the same peer review conclusion (matter/finding/deficiency) as a failure to disclose the omission of substantially all disclosures.

Proposed Revisions to Interpretation 6-3 – Compilations Performed When the Compiled Financial Statements Are Not Expected to Be Used by a Third Party (Management Use Only), Where No Compilation Report is Issued

Once SSARS 21 becomes effective, this interpretation will no longer apply and should be deleted. If the accountant is engaged to prepare financial statements for management-use only but is not engaged to issue a compilation report, the engagement would be performed in accordance with Section 70 of SSARS 21 and would not be a compilation engagement. In other words, management-use-only engagements will no longer exist after the effective date of SSARS 21.

For those firms that do not adopt SSARS 21 prior to its effective date, the extant interpretation would apply as originally drafted. It would not apply to those firms that elect to adopt SSARS 21 prior to its effective date. Therefore, during the transition period up until SSARS 21 becomes fully effective, Interpretation 6-3 should not be amended. In addition, TIC recommends that an alert (in whatever form deemed appropriate) be added to Interpretation 6-3 to ensure that firms understand when the guidance therein would be applicable.

Proposed New Interpretation 7-3 – Preparation of Financial Statements Engagements

One TIC member who practices in a state that requires a firm to be peer reviewed if it performs any engagement under the SSARSs questioned the use of the phrase “elects to enroll in the program” when a firm enrolls in the AICPA peer review program “to comply with licensing or other requirements.” If a state board is requiring a firm to participate in the AICPA’s peer review program, the reviewed firm views enrollment as a requirement, not an election. TIC therefore recommends that Peer Review Interpretation 7-3 be amended as follows:

If a firm is required to enroll in the peer review program due to licensing or other requirements or otherwise elects to enroll in the peer review program,…

TIC has not commented on the Board’s requested feedback from SBOAs, since TIC does not include representatives from the SBOAs.
TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Scot Phillips
Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees
January 5, 2015

AICPA Peer Review Program  
American Institute of CPAs  
220 Leigh Farm Road  
Durham, NC 27707-8110  

Attn: Tim Kindem, Technical Manager  via email: PR_expdraft@aicpa.org  

**Re:** Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews – Preparation of Financial Statements Performed Under SSARS and the Impact on Enrollment and the Scope of Peer Review  

We are pleased to respond to the request for comments from the American Institute of CPAs (the “AICPA” or the “Institute”) on its 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 Enrollment in the Scope of Peer Review). The National Association of State Boards of Accountancy’s (NASBA) mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. Our comments on the Proposed Changes are made in consideration of the charge of state regulators to protect the public interest.  

**OVERALL COMMENTS**  

We appreciate the AICPA’s efforts, in response to feedback received on the previous exposure draft related to the carving out of preparation services. We believe the language added to the proposed standards and interpretations regarding preparation services in this new exposure draft facilitates compliance with the licensing requirements of Boards of Accountancy and is consistent with their charge to protect the public interest.
Thank you for the opportunity to provide our perspective on this important topic. Our comments are intended to assist the AICPA in analyzing the relevant issues and potential impacts. We encourage the AICPA to engage in active and transparent dialogue with commenters as proposed changes are considered.

Very truly yours,

Walter C. Davenport, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO