



Agenda Item 1

Issues Paper: Improving the Quality of SSARs Engagements

Objective of Agenda Item

To discuss specific practice issues identified through the peer review process with respect to SSARs engagements and to consider vehicles for communicating best practices and guidance to practitioners.

Background

The AICPA Peer Review Team developed a document illustrating examples of matters identified during the peer review process for engagements with year-ends between January 1, 2019 and April 1, 2020 (“the peer review document”). That document is available at:

<https://www.aicpa.org/content/dam/aicpa/interestareas/peerreview/community/peerreviewers/downloadabledocuments/matters-in-pr.pdf>.

The following is a summary of the issues identified with respect to review and compilation engagements. The ARSC will discuss each of these issues and whether additional guidance is needed and, if so, the way such guidance should be provided to practitioners to increase the quality of SSARs engagements.

Issues for Discussion With ARSC

Issue #1 – Failure to obtain an engagement letter or a failure to include all required elements in the engagement letter

The following are the related requirements from AR-C section 80, *Compilation Engagements* and AR-C section 90, *Review of Financial Statements*:

AR-C section 80	AR-C section 90
.10 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement	.16 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate, prior to performing the engagement. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement

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<p>between the parties and should include the following: (Ref: par. .A11–.A16)</p> <ul style="list-style-type: none"> <i>a.</i> The objectives of the engagement <i>b.</i> The responsibilities of management set forth in paragraph .26<i>b</i> of section 60 and paragraph .08 of this section <i>c.</i> The responsibilities of the accountant <i>d.</i> The limitations of the compilation engagement <i>e.</i> Identification of the applicable financial reporting framework for the preparation of the financial statements <i>f.</i> The expected form and content of the accountant’s compilation report and a statement that there may be circumstances in which the report may differ from its expected form and content <p>.11 The engagement letter or other suitable form of written agreement should be signed by</p> <ul style="list-style-type: none"> <i>a.</i> the accountant or the accountant’s firm and <i>b.</i> management or those charged with governance, as appropriate. (Ref: par. .A12) 	<p>between the parties and should include the following: (Ref: par. .A24–.A29)</p> <ul style="list-style-type: none"> <i>a.</i> The objectives of the engagement <i>b.</i> The responsibilities of management set forth in paragraph .26<i>b</i> of section 60 and paragraph .13 of this section <i>c.</i> The responsibilities of the accountant <i>d.</i> The limitations of a review engagement, including a statement that a review is substantially less in scope than an audit and that the accountant will not express an opinion on the financial statements <i>e.</i> Identification of the applicable financial reporting framework for the preparation of the financial statements <i>f.</i> The expected form and content of the accountant’s review report and a statement that there may be circumstances in which the report may differ from its expected form and content <p>.17 The engagement letter or other suitable form of written agreement should be signed by</p> <ul style="list-style-type: none"> <i>a.</i> the accountant or the accountant’s firm and <i>b.</i> management or those charged with governance, as appropriate. (Ref: par. .A25)
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Action Requested of ARSC

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The ARSC is asked to consider whether additional guidance is necessary to reduce the occurrence of accountants failing to obtain an engagement letter or failing to include all required elements in the engagement letter. If additional guidance is determined to be necessary, the ARSC is asked to consider the form of that guidance (for example, practice aid, podcast, Journal of Accountancy article, etc.)

Issue #2 – Failure to document expectations or the comparison of expectations to recorded amounts in the performance of analytical procedures in a review of financial statements

The following are the related requirements from AR-C section 90:

.26 The accountant should apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement. Such analytical procedures should include the following: (Ref: par. .A48–.A50)

- a. Comparing the financial statements with comparable information for the prior period, giving consideration to knowledge about changes in the entity’s business and specific transactions
- b. Considering plausible relationships among both financial and, when relevant, nonfinancial information (Ref: par. .A51)
- c. Comparing recorded amounts or ratios developed from recorded amounts to expectations developed by the accountant through identifying and using relationships that are reasonably expected to exist, based on the accountant’s understanding of the entity and the industry in which the entity operates (Ref: par. .A52)
- d. Comparing disaggregated revenue data, as applicable (Ref: par. .A53)

.27 When designing and performing analytical procedures, the accountant should (Ref: par. .A54)

- a. determine the suitability of particular analytical procedures;
- b. consider the reliability of data from which the accountant’s expectation of recorded amounts or ratios is developed, taking into account the source, comparability, and nature and relevance of information available;
- c. develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to provide the accountant with limited assurance that a misstatement will be identified that, either individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and

- d. determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph .28 and compare the recorded amounts, or ratios developed from recorded amounts, with the expectations.

Investigating Results of Analytical Procedures

.28 If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the accountant should investigate such differences by

- a. inquiring of management and
- b. performing other review procedures if considered necessary in the circumstances.
(Ref: par. .A55)

Action Requested of ARSC

The ARSC is asked to consider whether additional guidance is necessary to reduce the occurrence of accountants failing to document expectations or the comparison of expectations to recorded amounts in the performance of analytical procedures in a review of financial statements. If additional guidance is determined to be necessary, the ARSC is asked to consider the form of that guidance (for example, practice aid, podcast, Journal of Accountancy article, etc.)

Issue #3 – Failure to obtain appropriate management representation letters in a review of financial statements

The peer review document indicates that matters include failure to:

- Include all representations required by the applicable professional standards
- Date the letter appropriately
- Include appropriate financial statement periods

The following are the related requirements from AR-C section 90:

.60 For all financial statements presented and all periods covered by the review, the accountant should request management to provide written representations that are dated as of the date of the accountant's review report and that indicate that it has fulfilled its responsibilities, as set out in the terms of the engagement, including the following: (Ref: par. .A91–.A97)

- a. Management has fulfilled its responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- b. Management acknowledges its responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements, including its responsibility to prevent and detect fraud.

- c.* All transactions have been recorded and are reflected in the financial statements.
- d.* Management has provided the accountant with all relevant information and access to information, as agreed upon in the terms of the engagement.
- e.* Management has responded fully and truthfully to all of the accountant's inquiries
- f.* Management has disclosed to the accountant the identity of the entity's related parties and all the related party relationships and transactions of which it is aware, and it has appropriately accounted for and disclosed such relationships and transactions.
- g.* Management has disclosed to the accountant significant facts relating to any fraud or suspected fraud known to management that may have affected the entity involving
 - i.* management,
 - ii.* employees who have significant roles in internal control, or
 - iii.* others, when the fraud could have a material effect on the financial statements.
- h.* Management has disclosed to the accountant significant facts relating to any allegations of fraud or suspected fraud known to management that may have affected the entity's financial statements communicated by employees, former employees, regulators, or others.
- i.* Management has disclosed to the accountant all known actual or possible instances of noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- j.* Management has disclosed to the accountant all information relevant to the use of the going concern assumption in the financial statements.
- k.* Management has properly accounted for all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, and it has made the necessary adjustments or disclosures.
- l.* Management has disclosed to the accountant whether it believes that the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the financial statements as a whole. A summary of such items should be included in, or attached to, the written representation.

- m. Management has disclosed to the accountant all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements, and it has appropriately accounted for and disclosed such litigation and claims in accordance with the applicable financial reporting framework.

- n. Management has disclosed to the accountant whether it believes that significant assumptions it used in making accounting estimates are reasonable.

Action Requested of ARSC
 The ARSC is asked to consider whether additional guidance is necessary to reduce the occurrence of accountants failing to obtain appropriate management representation letters. If additional guidance is determined to be necessary, the ARSC is asked to consider the form of that guidance (for example, practice aid, podcast, Journal of Accountancy article, etc.)

Issue #4 – Failure to prepare compilation and review reports in accordance with Professional Standards

The peer review document indicates that matters include failure **related** to:

- Inappropriate titles or lack of a title
- No headings on the report
- Failure to include an explanation of the degree of responsibility being taken with respect to supplementary information
- Failure to report on all financial statement periods presented
- Failure to include a separate paragraph indicating that the financial statements were prepared in accordance with a special purpose framework
- In a compilation report on financial statements that omit substantially all disclosures, failure to disclose in the report that substantially all disclosures are omitted

The following are the related requirements from AR-C section 80 and AR-C section 90:

AR-C section 80	AR-C section 90
<p>.17 The accountant’s compilation report should be in writing and (Ref: par. .A24 and .A27)</p> <ul style="list-style-type: none"> a. include a statement that management (owners) is (are) responsible for the financial statements. b. identify the financial statements that have been 	<p>.76 The written review report should include the following: (Ref: par. .A123)</p> <ul style="list-style-type: none"> a. A title that includes the word <i>independent</i> to clearly indicate that it is the report of an independent accountant for a review engagement. (Ref: par. .A110)

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<p>subjected to the compilation engagement.</p> <p><i>c.</i> identify the entity whose financial statements have been subjected to the compilation engagement.</p> <p><i>d.</i> specify the date or period covered by the financial statements.</p> <p><i>e.</i> include a statement that the accountant performed the compilation engagement in accordance with SSARs promulgated by the Accounting and Review Services Committee of the AICPA.</p> <p><i>f.</i> include a statement that the accountant did not audit or review the financial statements nor was the accountant required to perform any procedures to verify the accuracy or completeness of the information provided by management and does not express an opinion, a conclusion, nor provide any assurance on the financial statements.</p> <p><i>g.</i> include the signature of the accountant or the accountant's firm.</p> <p><i>h.</i> include the city and state where the accountant practices. (Ref: par. .A26)</p> <p><i>i.</i> include the date of the report, which should be the date that the accountant has completed</p>	<p><i>b.</i> An addressee, based on the circumstances of the engagement. (Ref: par. .A111)</p> <p><i>c.</i> An introductory paragraph that (Ref: par. .A112–.A114)</p> <p><i>i.</i> identifies the entity whose financial statements have been reviewed,</p> <p><i>ii.</i> states that the financial statements identified in the report were reviewed,</p> <p><i>iii.</i> identifies the financial statements,</p> <p><i>iv.</i> specifies the date or period covered by each financial statement,</p> <p><i>v.</i> includes a statement that a review includes primarily applying analytical procedures to management's (owner's) financial data and making inquiries of company management (owners), and</p> <p><i>vi.</i> includes a statement that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole, and that, accordingly, the accountant does not express such an opinion.</p>
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the procedures required by this section.

d. A section with the heading "Management's Responsibility for the Financial Statements" that includes an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. (Ref: par. .A115)

e. A section with the heading "Accountant's Responsibility" that includes the following statements:

i. The accountant's responsibility is to conduct the review engagement in accordance with SSARs promulgated by the Accounting and Review Services Committee of the AICPA. The accountant's review report should also explain that those standards require that the accountant perform the procedures to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that

should be made to the financial statements for them to be in accordance with the applicable financial reporting framework.

(Ref: par. .A116-.A118)

ii. The accountant believes that the results of the accountant's procedures provide a reasonable basis for the accountant's conclusion.

iii. The accountant is required to be independent of the entity and to meet the accountant's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the review.

f. A concluding section with an appropriate heading that includes the accountant's conclusion on the financial statements in accordance with paragraphs .67-.74, as appropriate, and that identifies the country of origin of the financial reporting framework, if applicable

g. When the accountant's conclusion on the financial statements is modified,

i. a paragraph, under the appropriate heading, that contains the accountant's modified conclusion in

	<p>accordance with paragraphs .69–.74, as appropriate, and</p> <ul style="list-style-type: none"> ii. a paragraph, under an appropriate heading, that provides a description of the matter or matters giving rise to the modification (Ref: par. .A119) <ul style="list-style-type: none"> h. The signature of the accountant or the accountant’s firm. i. The city and state where the accountant practices. (Ref: par. .A120) j. The date of the review report, which should be dated no earlier than the date on which the accountant has obtained sufficient appropriate review evidence as the basis for the accountant’s conclusion on the financial statements, including being satisfied that <ul style="list-style-type: none"> i. all the statements that the financial statements comprise, including the related notes, have been prepared and ii. management has asserted that it has taken responsibility for those financial statements. (Ref: par. .A121–.A122)
<p>The Accountant’s Compilation Report on Financial Statements Prepared in</p>	<p>Accountant’s Review Report on Financial Statements Prepared in Accordance With a Special Purpose Framework</p>

<p>Accordance With a Special Purpose Framework</p> <p>.21 The accountant’s compilation report on financial statements prepared in accordance with a special purpose framework should include a separate paragraph that (Ref: par. A35–A36)</p> <ul style="list-style-type: none"> <i>a.</i> indicates that the financial statements are prepared in accordance with the applicable special purpose framework, <i>b.</i> refers to the note to the financial statements that describes the framework, if applicable, and <i>c.</i> states that the special purpose framework is a basis of accounting other than GAAP. <p>For special purpose financial statements prepared in accordance with a contractual basis of accounting, the separate paragraph should also state that, as a result, the financial statements may not be suitable for another purpose.</p>	<p>.80 The accountant’s review report on financial statements prepared in accordance with a special purpose framework should include an emphasis-of-matter paragraph, under an appropriate heading, that (Ref: par. .A130–.A131)</p> <ul style="list-style-type: none"> <i>a.</i> indicates that the financial statements are prepared in accordance with the applicable special purpose framework, <i>b.</i> refers to the note to the financial statements that describes the framework, and <i>c.</i> states that the special purpose framework is a basis of accounting other than GAAP. <p>For special purpose financial statements prepared in accordance with a contractual basis of accounting, the emphasis-of-matter paragraph should also state that, as a result, the financial statements may not be suitable for another purpose.</p>
	<p>Comparative Financial Statements</p> <p>.82 Comparative financial statements may be required by the applicable financial reporting framework, or management may elect to provide such information. When comparative financial statements are presented, the accountant’s report should refer to each period for which financial statements are presented. (Ref: par. .A133–.A134)</p>
<p>Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework</p> <p>.27 When reporting on financial statements that omit substantially all disclosures</p>	

<p>required by the applicable financial reporting framework, the accountant should include a separate paragraph in the accountant's compilation report that includes the following elements: (Ref: par. .A40–.A41)</p> <ul style="list-style-type: none"> a. A statement that management has elected to omit substantially all the disclosures (and the statement of cash flows, if applicable) required by the applicable financial reporting framework (or ordinarily included in the financial statements if the financial statements are prepared in accordance with a special purpose framework) b. A statement that if the omitted disclosures (and the statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the entity's financial position, results of operations, and cash flows (or the equivalent for presentations other than GAAP) c. A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters 	
<p>Supplementary Information That Accompanies Financial Statements and the Accountant's Compilation Report Thereon</p> <p>.34 When supplementary information accompanies financial statements and the accountant's compilation report thereon, the accountant should clearly indicate the degree of responsibility, if any, the accountant is</p>	<p>Supplementary Information That Accompanies Reviewed Financial Statements and the Accountant's Review Report Thereon</p> <p>.126 When supplementary information accompanies reviewed financial statements and the accountant's review report thereon, the accountant should clearly indicate the degree of</p>

taking with respect to such information in either

- a. a separate paragraph in the accountant's compilation report on the financial statements or
- b. a separate report on the supplementary information.

.35 When the accountant has performed a compilation engagement with respect to both the financial statements and the supplementary information, the accountant should include a separate paragraph in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. .A45 and .A47)

- a. the supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements;
- b. the supplementary information is the responsibility of management;
- c. the supplementary information was subject to the compilation engagement; and
- d. the accountant has not audited or reviewed the supplementary information and does not express an opinion, a conclusion, nor provide any assurance on such information.

responsibility, if any, the accountant is taking with respect to such information in either

- a. an other-matter paragraph in the accountant's review report on the financial statements or
- b. a separate report on the supplementary information

.127 When the accountant has subjected the supplementary information to the review procedures applied in the accountant's review of the basic financial statements, the other-matter paragraph in the accountant's review report on the financial statements or the separate report on the supplementary information should state that (Ref: par. .A198 and .A200)

- a. the supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements;
- b. the supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements;
- c. the supplementary information has been subjected to the review procedures applied in the accountant's review of the basic financial statements and whether the accountant is aware of any material modifications that should be made to the supplementary information; and
- d. the accountant has not audited the supplementary information

<p>.36 When the accountant has performed a compilation engagement with respect to the financial statements but the supplementary information was not subject to the compilation engagement, the accountant should include a separate paragraph in the accountant’s compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. .A46–.A47)</p> <ul style="list-style-type: none"> a. the supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements; b. the supplementary information is the responsibility of management; and c. the supplementary information was not subject to the compilation engagement and the accountant does not express an opinion, a conclusion, nor provide any assurance on such information. 	<p style="text-align: right;">and does not express an opinion on such information.</p> <p>.128 When the accountant has not subjected the supplementary information to the review procedures applied in the accountant’s review of the basic financial statements, the other-matter paragraph in the accountant’s review report on the financial statements or the separate report on the supplementary information should state that (Ref: par. .A199–.A200)</p> <ul style="list-style-type: none"> a. the supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements; b. the supplementary information is the responsibility of management; and c. the accountant has not audited or reviewed the supplementary information and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on such information.
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Action Requested of ARSC

The ARSC is asked to consider whether additional guidance is necessary to reduce the occurrence of accountants failing to prepare compilation and review reports in accordance with Professional Standards. If additional guidance is determined to be necessary, the ARSC is asked to consider the form of that guidance (for example, practice aid, podcast, Journal of Accountancy article, etc.)

No Additional Agenda Items Presented