ARSC Strategic Planning/Brainstorming

I. Objective of Agenda Item

To consider practice issues identified through peer review and from questions received to AICPA technical hotlines and determine whether any of the issues warrant standard setting or issuance of guidance (authoritative or non-authoritative).

II. Background

The ARSC has discussed practice issues over the past several meetings. In addition, staff reached out to the separate AICPA technical hotlines (the general technical hotline and the Center for Plain English Accounting (CPEA) hotline and the AICPA peer review team to identify additional areas of potential struggle for accountants performing SSARSs engagements.

As a separate agenda item to the November 2023 ARSC meeting, the ARSC will consider the draft non-authoritative practice aid on analytical procedures in a review engagement.

Additionally, at its meeting in May 2022, the ARSC directed that additional guidance when the accountant considers uncorrected misstatements that are *clearly trivial* should be added to the Guide, *Preparation, Compilation, and Review Engagements* (the SSARSs Guide) that would build off the following guidance in paragraph .A40 of AR-C section 90:

> **.A40** The accountant's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by the accountant as a basis for expressing a conclusion on the financial statements.

III. ARSC Consideration

The following sections represent input received from the AICPA peer review team and staff of the respective hotlines. The ARSC members and staff will walk through each of the identified issues and:

1) Determine whether the issue warrants additional standard-setting or guidance.

2) If the ARSC determines that the issue warrants standard setting or guidance, the ARSC to preliminarily determine whether the issue:

    a) Warrants the development of a standard to supplement one of the AR-C sections
    b) Should be addressed in a subsequent edition of the authoritative SSARSs Guide. Note that the next edition of the SSARSs Guide is scheduled for 2023.
    c) Warrants the issuance of an authoritative interpretation to one of the AR-C sections.
    d) Warrants the issuance of a non-authoritative technical Q&A.
    e) Warrants the issuance of a non-authoritative practice aid.
    f) Other

3) After the ARSC has triaged the issues, the ARSC is asked to consider the priority of issuance of any guidance.

"Trouble Spots" Identified Through Peer Review

The AICPA Peer Review Team compiled "trouble spots" related to SSARSs engagements (in addition to audits, attestation engagements, issues related to the Code of Professional Conduct, quality control, and GAAP issues). As provided by the Peer Review Team, those "trouble spots" are as follows:

Reviews

- Failure to obtain appropriate management representation letters. Matters included failure to:
    - Include all representations required by the applicable professional standards
    - Date the letter appropriately
    - Include appropriate financial statement periods

- Failure to update reports in conformity with the applicable professional standards including:
    - 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 in a separate paragraph
    - Failure to cover all of the periods or the correct periods presented in the financial statements in the accountant's report

- Failure to include all the required elements within the engagement letter

Compilations

- Failure to prepare reports in accordance with professional standards. The following matters were noted:
    - Not updated for SSARSs pronouncements
    - No explanation of the degree of responsibility the accountant is taking with respect to supplementary information
    - Failure to date the report appropriately
    - Failure to mention that substantially all disclosures are omitted
    - Failure to report on all periods presented in the financial statements
    - Failure to include a separate paragraph indicating that the financial statements were prepared in accordance with a special purpose framework and that framework differs from GAAP

- Failure to include all elements in the engagement letter (for example, objectives of the engagement) required by SSARSs. Other miscellaneous matters were noted relative to the engagement letter including:
    - Failure to note the lack of independence or the letter referred to GAAP on an engagement performed in accordance with a special purpose framework.
    - Failure to identify non-attest services provided
    - Failure to obtain required signatures

Preparation Engagements

- Failure to disclose the fact that substantially all disclosures have been omitted on the face of the financial statements or in the selected notes

- Failure to include a statement that indicates that at a minimum, no assurance is provided on the financial statements

- Failure to disclose departures from the financial reporting framework including the omission of the statement of cash flows

Questions Raised to the CPEA Hotline

Note – The following questions are as presented by CPEA staff and represent the questions received by the CPEA hotline during 2020-2022. Audit & Attest Standards staff has not edited (other than to remove the questions that were not SSARSs specific) so as to not influence the ARSC's consideration:

We have a client that was bought by a foreign owned private equity company in 2021. They now have a national firm completing the audit of their financial statements. We previously audited this company and assisted in the preparation of their financials. The client has requested that we continue the financial preparation piece, as their new auditor does not provide that service. We will be using the audited numbers and information provided by the client to prepare these financials, but completing no other analysis. Does this fall under the scope of a preparation engagement or a consulting engagement?

I have a client that was going to change fiscal and tax years. After getting denied by the IRS to change fiscal years they are keeping both financial and tax years at December. We did a short period audit for the eight months ended August 31 expecting to change the fiscal year. The bank wants a reviewed financial statement for the full calendar year which includes the eight months of the short period we issued an audit on. Is there anything prohibiting us from issuing a reviewed financial for 12 months which includes the 8 months an audit was issues. If not, is there any special reporting that needs to be done?

How to conclude whether my firm has provided a f/s preparation services under SSARSs for certain outsourced accounting services - our firm has an Outsourced Accounting Services (OAS) department. Here is a typical scenario they have related to an engagement:

- All banking and credit card activity is downloaded into their software using links to the bank accounts through their accounting software.

- We are entering all other activity into the client's accounting software and reconciling the balance sheet accounts and reviewing the income statement transactions. We are a licensed user of their software. They have to invite us to be one of their users.

- We then print a balance sheet and income statement from their software and provide to the client. In some cases we are providing budget to actual variances either through their software or through Excel.

- In the future we will provide various dashboards to them using their software. We will also provide dashboards using their data from their accounting software and import into our analytic software. The dashboards will include things like revenue per client/per service.

- All our work is done inside the client's software.

Preliminary Conclusion: Appendix - Preparation of Financial Statements Versus Assistance in Preparing Financial Statements indicates "Using the information in a general ledger to prepare financial statements outside of an accounting software system" would constitute a preparation under standards. Conversely, "entering general ledger transactions or processing payments (general bookkeeping) in an accounting software system" would not constitute a prep. All of our work is done within the client's accounting software system (see "Inquiry" section above). Does the fact that we print the balance sheet/income statement from the client's software and provide it to them cross over into performing a preparation?

A pretty easy question here I think, can we prepare separate compilation reports for subsidiaries included in our audit of the consolidated group. We are thinking this is ok, but struggled to find answer in literature. Is there anything else we should be considering in this situation?

We have a client for which we are auditing the GAAP financial statements of the parent entity only, but also compiling the financial statements of their subsidiary, whose financial statements are in accordance with IFRS, and consolidating them with the parent. Our report will be a combined audit and compilation report, with separate sections for each portion of the engagement. The report on the compiled financial statements was going to look like the following, but the client requested that the additional portion in quotation marks be added. Is this reference to the compiled financial statements being audited by another international firm acceptable?

Report on the Compiled Financial Statements

Management is responsible for the accompanying financial statements of Subsidiary, which comprise the balance sheet as of December 31, 2020, and the related statements of income and comprehensive income, and changes in stockholders' equity in accordance with International Financial Reporting Standards. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on the financial statements of Subsidiary. "The accompanying financial statements of Subsidiary as of December 31, 2020, has been audited by Grant Thornton Sh.p.k duly licensed and authorized to act as the local statutory auditor of Subsidiary in the country where Subsidiary is registered and carries out its commercial activity. The statutory auditor's opinion on Subsidiary financial statement for December 31, 2020, has been unmodified."

We are compiling the consolidated financial statements comprising information of the parent (audited by us under GAAP) and the subsidiary (audited by Grant Thornton under IFRS). However, we are issuing an audit report on the parent within these financial statements.

Our firm has prepared a 2020 compilation report without disclosure for one of our clients. The client is a privately held partnership, service provider in the healthcare industry and payroll is a substantial component of its cost of services. The client obtained a PPP and PPP2 and the first PPP was reported on the compilation report as we have done for all our other clients as debt under ASC 470. PPP has now been forgiven, although partially, management also expects PPP2 to be forgiven. Management has reached out to ask whether the 2020 report can be revised and PPP be reported under IAS20 or ASC 958-605 as income over the PPP respective covered period and not under ASC 470 debt.
Is such revision to a compilation report allowed? In particular if the compilation report is without footnotes?

I agree with client management that ASC 470 accounting results in a substantial mismatch of income and expenses, especially in their industry. However, for now I have indicated I am not inclined to agree with the management's request as our firm prefers all our clients follow the ASC 470 method which is more objective. Also making such a change on a compilation without disclosure could be misleading as the PPP loans are not even disclosed off balance sheet under ASC 958-605. I have reached the preliminary conclusion a compilation without footnotes is ill fitting for PPP accounting under ASC 958-605 or IAS 20. If you could please consult with us on this matter that would help us. I am sure we might not be the first firm that reached out to you on this matter.

I have a client that, which in the past would have been considered development stage, that there is substantial doubt regarding their ability to continue as a going concern. This is a full disclosure comp and management prefers to not address the matter in the notes, preferring to have a GAAP departure in the report that says management is required to consider the entity's ability to continue as a going concern and has not considered whether substantial doubt exists. Is that permissible?

AR-C section 80A paragraph A20: Financial statements may be misleading, for example, if the applicable financial reporting framework includes the premise that the financial statements are prepared on the going concern basis, and undisclosed uncertainties exist regarding the entity's ability to continue as a going concern. If the accountant becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the accountant may suggest additional disclosures concerning the entity's ability to continue as a going concern in order to avoid the financial statements being misleading.

We feel the notes should address going concern and whether or not the substantial doubt is alleviated and have advised management accordingly. Management elects not to in their notes and we see nothing prohibiting us from issuing a GAAP departure nor requiring us to acknowledge the substantial doubt.

This is a pretty simple question I think. We are having to re-issue a set of monthly compiled financial statements because we have determined we were not independent. All we need to do is add the phrase to the report disclosing our lack of independence. I believe we can leave everything else the same, including the original issuance date of the report, but wanted to make sure I was not missing something.

We have a client that discovered an error subsequent to the issuance of the 2019 financial statements which would result in a prior period adjustment to its 2019 financial statements. This error is both quantitatively and qualitatively material. We performed a review engagement in 2019 and we are engaged again to perform the 2020 review.

Questions are as follows:
1) Are we able to present comparative 2020/2019 financial statements which disclose the prior period adjustment in 2019 or should we restate and reissue the 2019 financial statements entirely? (What is common/best practice on this?)
2) What are our responsibilities for the 2019 financial statements which can no longer be relied upon? The guidance states that it is the accountants responsibility to notify the users of the financial statements, however in practice how is this usually handled? Can management represent to us that they have notified all users of the financial statements that they have been reissued/restated?
3) What are our options if the client does not want to reissue/restate the 2019 financial statements and only wants to present the error as a prior period adjustment in the 2020 financial statements (single year presentation)?

Can you find is the literature a requirement to include an EOM in a compilation report related to going concern? I've good with the disclosure requirements, but can't locate a cite for a report EOM.

SSARS 25 requires the accountant to communicate, with management or those charged with governance significant matters that arise during the engagement. Among others, matters to be disclosed include significant findings from the performance of review procedures, including findings that caused the accountant to consider or perform additional procedures and matters that led to modifying the accountant's review report. When we send proposed adjusting entries to the client’s CFO along with draft review report and statements, could these satisfy these communication requirements? That is, the CFO is a member of management and adjusting entries represent “findings” (errors that are being corrected) and, if the draft review report/statements describe a report modification, then this would communicate matters that led to modifying the report.

If we are issuing a compilation report on tax basis financial statements with no disclosures. How should the explanation of how the tax basis differs from GAAP be disclosed on the face of the financial statements. Can you send an example? Or would we have to at minimum have Summary of Significant Accounting Policy note?

We have a client that we do bookkeeping for and issued a GAAP Compilation (not independent) for 12/31/19. Management needs the statements in January 2020. Based on circumstances of this client (ongoing situation based on the nature of the business) the total Revenues and total Expenses for 12/31/19 are not known or are reasonably estimated until the end of Feb. We have included a GAAP departure in the report due to certain amounts of revenue and expense that are recorded on a cash basis. The statements are full disclosure and Topic 606 was not implemented.
At the point where the actual revenue and expense for 2019 can be recorded (early March) we will prepare another set of GAAP financial statements with no GAAP departures, full disclosure including all Topic 606 disclosures, that will be used by the client's auditors to perform an audit.

QUESTION:
1. When preparing statements for another firm to audit, are we required to perform a preparation or compilation engagement?
2. If yes, can we issue the second set of financials based on the original engagement letter that was obtained for the 12/31/19 compilation? Or should we do a preparation engagement for the 2nd set of GAAP with no departure statements.
3. And if so, can we just issue the 2nd set of no departure statements without another engagement letter and without recalling the 1st GAAP departure statements
4. Would the 1st set of GAAP departure statements need to be recalled?
Because the 1st report clearly discloses the GAAP departures it is not misleading so does not have to be recalled.
The second GAAP report with no departures can be issued without an additional engagement letter.

We have the following situation: We have picked up a non-disclosure compilation from another accountant. The statements were prepared on the GAAP basis in the prior year. Due to rev-rec, we are converting the statements to the tax basis for the current year, and would like to restate the prior year numbers to the tax basis and present those as well. We have not been able to locate in PPC a compilation reporting example that fits this scenario, and were hoping you could provide some guidance on how we should report in this situation.

The literature seems to suggest a report that would indicate we have restated the prior year, and are reporting on the restatement, yet this seems to be more applicable to restating something that was reported incorrectly in the prior period, as opposed to changing the entire basis. We have no footnotes, which also makes it difficult to deal with.

I'm trying to find some guidance on preparing compiled financial statements for a client that is only requesting an income statement and supplemental schedules. I can't really find anything, however. Would you be able to point me in the right direction? This is for income tax basis statements.

We have a client that is requesting an audit of a balance sheet for 12-31-2020 but a review of the other statements for the same period then ending. I am looking for guidance on reporting.
Not sure but initial idea is to issue an audit report on the balance sheet and only attach that statement. issue a separate review report on the income statement only. Doesn't feel quite right to me though. Also wondering if there is any way to issue one report and indicate the different levels of reporting. Not sure if there are implications related to accepting the engagement.

On a review engagement, if the organization does not reconcile their cash account (and cash on the bank statement doesn't equal cash in the bank by an immaterial amount - example $12k, when materiality is $160k), is there anything requiring them to do the bank reconciliation before we issue the review? They are responsible for the internal controls, and we aren't testing the control environment in a review, we just know from inquiries that that control isn't in place, so it just leaves us knowing something could be wrong. We do other inquires and analytics on the numbers to make sure they make sense and it's just a review. It just seems like a bank reconciliation is such a important tool to make sure everything is recorded.

Can we perform a preparation engagement on proforma financial statements
SSARS 23 specifically allows preparation of projections and compilation of projections and proforma financial statements. I did not see anything on preparation of proforma financial statements but noted preparation of historical FS or information.
It is included as part of historical preparations, and therefore allowed.

My question is whether a CPA can be engaged to perform a preparation of financial statements in accordance with SSARSs if we know our client will provide the statements to a lender or 3rd party?

<u>Issues Identified Through the AICPA Technical Hotline</u>

Note – staff has included all issues communicated by the Technical Hotline staff and has not eliminated any that staff may consider to not warrant ARSC consideration.

1) Difficulties determining whether the accountant is required to perform an engagement in accordance with AR-C section 70, *Preparation of Financial Statements* (that is, misunderstanding the concept of “engaged” to prepare financial statements).

2) Confusion as to whether the SSARSs apply to a CPA in business and industry and to CPAs performing controllership services.

3) Issues regarding how to reissue a compilation or review report.

4) Guidance for subsequently discovered facts in compilation engagements.

5) Guidance and report examples for comparative financial statements when prior year financial statements are compiled or reviewed concurrently with current year audited financial statements.

6) Reporting in a language other than English.

7) When an entity includes disclosures about only a few matters in the form of notes to the financial statements, labeled as "Selected Information — Substantially All Disclosures Required by [*identify the applicable financial reporting framework (for example ‘accounting principles generally accepted in the United States of America’)*] Are Not Included," should the compilation report refer to the “Selected Information” along with the financial statements that have been subjected to the compilation engagement?

8) If the accountant withdraws from the compilation or review engagement, or the client instructs the accountant not to complete the engagement and issue a report, what is the accountant’s responsibility to follow specific requirements in AR-C section 80 and AR-C section 90?

9) There is guidance for auditors in AU-C section 585 when the auditor discovers that there were omitted procedures after the report is released. What should the accountant do for a SSARSs engagement for omitted procedures?

Additional Agenda Items Presented:

Agenda item 4A	Triage of identified issues in SSARSs engagements