


Update on Standards for Attestation Engagements and
Reviews, Compilations, and Financial Statement Preparation
Engagements

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Standards
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1



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Michael P. (Mike) Glynn is a Senior Manager in the AICPA Audit and Attest Standards Team. In this capacity, Mike serves as the staff liaison to the Accounting and Review Services Committee (ARSC). In addition, Mike supports the activities of Auditing Standards Board (ASB) and its subcommittees by assisting members in drafting and deliberating authoritative professional standards and interpretations.

Mike has worked at the AICPA since 1998. Prior to joining the Audit & Attest Standards Team in 2003, Mike worked with the Professional Ethics Division (1998-1999) and the SEC Practice Section (2000-2002)

2

Disclaimer

Views expressed by ARSC members and AICPA employees are expressed for purposes of deliberation, providing member services and other purposes exclusive of practicing public accounting. The views expressed do not necessarily represent the official views of the AICPA unless otherwise noted. Official AICPA positions are determined through certain specific committee procedures, due process and deliberation.


3

Session will cover:

- Revisions to AR-C sections 60, 70, 80, and 90 resulting from the issuance of SSARS No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*
- Best practices and select performance requirements for reviews, compilations, and financial statement preparation engagements
- SSAE No. 19, *Agreed-Upon Procedures Engagements*, SSAE No. 21, *Direct Examination Engagements*, and SSAE No. 22, *Review Engagements*
- Exposure Draft of proposed SSAE, *Amendments to the Attestation Standards for Consistency With the Issuance of AICPA Standards on Quality Management*
- Current ARSC activities

4

ARSC Mission and Members



ARSC is a senior committee of the AICPA designated by Council to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of a nonpublic entity.

7 ARSC MEMBERS

Member Category	Count
Major Firm Group (top 100)	4
Top 100-400 Firms	2
Small Practitioners	1
Big Four Firms	0

5

SSARS No. 26, *Quality Management for an Engagement Conducted in Accordance With SSARSs*

- Issued - June 2022
- Amends AR-C sections 60, 70, 80, and 90
- Enhances certain concepts related to quality management for engagements performed in accordance with SSARSs
- Ensures that certain concepts related to quality management, where appropriate, are consistent between the auditing standards and SSARSs
- Includes a technical revision to the requirement to obtain an engagement letter in a review
- Effective for engagements performed in accordance with SSARSs for periods ending on or after December 15, 2025. Early implementation is permitted. Except the technical revision which was effective on issuance.

6

Agreement on Engagement Terms (Engagement Letter)

7

Obtaining an Engagement Letter in a SSARs Engagement

- The accountant is required to obtain an engagement letter (or equivalent) for all reviews, compilations, and financial statement preparation engagements.
 - The accountant or the accountant's firm signs the engagement letter
 - Management also required to sign
- The understanding reduces the risk that the accountant or the client may misinterpret the needs or expectations of the other party.

8

Obtaining an Engagement Letter in a SSARs Engagement

- The engagement letter is required to include management's agreement that it acknowledges and understands its responsibility for the preparation and fair presentation of the f/s in accordance with the applicable FRF
 - If the engagement includes supplementary information, management would be responsible for the f/s and the SI and the engagement letter should so indicate.
 - The 2023 SSARs Guide (to be issued in the Fall) will include an illustrative engagement letter for such circumstances.

9

Obtaining an Engagement Letter in a SSARs Engagement

- If the engagement includes SI, the engagement letter would include a statement that the accountant's report (if applicable) will include a paragraph indicating the degree of responsibility that the accountant is taking with respect to the SI or that the accountant expects to issue a separate report.
 - Note that the reporting requirement for a compilation or review is more robust than an audit
- If the terms of engagement change, new agreement and documentation (engagement letter or addendum) are needed.

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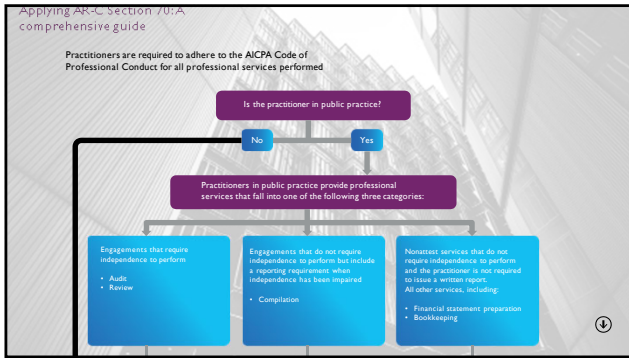
Preparation of Financial Statements

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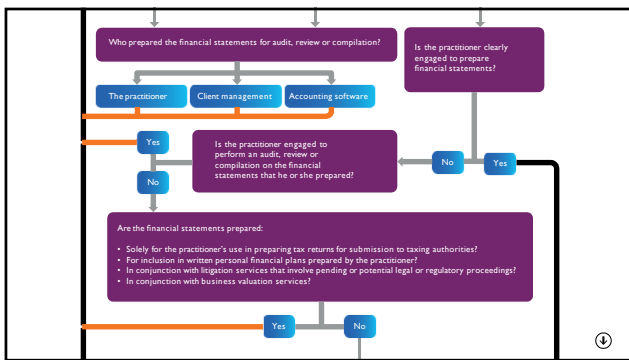
When Does Section 70 Apply?

- AR-C section 70 applies when the accountant is engaged to prepare f/s but not engaged to perform an audit, review, or compilation on those f/s
 - Engaged is the equivalent of being "hired"
 - Engaged does not mean obtaining an engagement letter
 - Obtaining an engagement letter is a required procedure after being engaged!
 - **It is important to understand what the client has hired the CPA to do!**

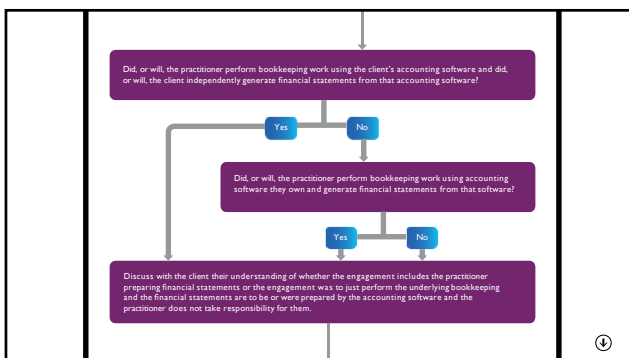
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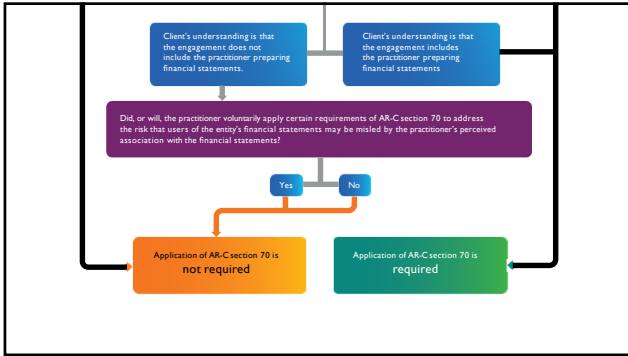
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16

Required Legend

- Ensure that a statement is included on each page of the financial statements indicating that "no assurance" is provided
- To further avoid misunderstanding regarding the accountant's association, the accountant may direct management that the financial statement titles include the word "unaudited"

17

Review of Financial Statements

18

Communication With Predecessor Accountants

- Not required with respect to acceptance of a review (or compilation or preparation) engagement but the potential successor may believe it is beneficial to obtain information to assist in the client acceptance process
- Predecessor is precluded from disclosing confidential client information unless the client specifically consents
- If the client consents, communication can be similar to that performed prior to acceptance of an audit engagement – including SAS 147 NOCLAR discussion.

19

19

Objective of a review

- The objective of a review is to obtain limited assurance primarily by performing analytical procedures and inquiries, as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework (for example, U.S. GAAP, cash-basis or tax-basis).
- ACCOUNTANT ACCUMULATES REVIEW EVIDENCE TO OBTAIN A LIMITED LEVEL OF ASSURANCE
- IS AN ASSURANCE ENGAGEMENT

20

20

Objective in an audit

- The objective of an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to *fraud or error*, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework (for example, U.S. GAAP, cash-basis, or tax-basis)
- AUDITOR ACCUMULATES AUDIT EVIDENCE TO OBTAIN A REASONABLE LEVEL OF ASSURANCE
- IS AN ASSURANCE ENGAGEMENT

21

Review of Financial Statements

- AR-C section 90 applies to all reviews of historical financial information – excluding
 - Interim financial information (which is covered by AU-C section 930)
 - Interim information may be for a 12 month period is that period ends on a date other than the entity's fiscal year end
 - pro forma financial information (which is covered by AT-C section 310)

22

Review Performance Procedures

- Required to determine materiality and apply this materiality in designing the procedures and evaluating the results obtained from those procedures.
 - Accountant may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because it is expected that such amounts clearly would not have a material effect on the financial statements
 - Any uncertainty whether an amount is clearly trivial would result in such amount not being clearly trivial

23

Review Performance Procedures

- Review procedures are tailored based on the accountant's:
- Understanding of the industry
 - Knowledge of the client
 - Awareness of the risk that he or she may unknowingly fail to modify the accountant's review report on f/s that are materially misstated
 - A review engagement only requires an awareness of RMM. In contrast an audit requires a formal assessment of RMM.

24

Review Performance Procedures

The accountant performs primarily analytical procedures and inquiries to obtain sufficient appropriate review evidence as the basis for a conclusion on the financial statements as a whole.

In obtaining sufficient appropriate review evidence as the basis for a conclusion on the financial statements as a whole, the accountant is required to design and perform the analytical procedures and inquiries to address the following

- all material items in the financial statements, including disclosures
- areas in the financial statements where the accountant believes there are increased risks of material misstatements

25

25

Analytical Procedures

- *Analytical procedures* are "evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such investigation, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount."

26

26

Expectations

Expectations are the accountant's predictions of recorded accounts or ratios. In performing analytical procedures, the accountant develops the expectation that any significant difference between the expected amount and the recorded amount indicates a possible misstatement.

Expectations are developed **BEFORE** comparing to recorded amount!

An accountant develops expectations by identifying plausible relationships (such as a store's square footage and its retail sales) that, based on the accountant's understanding of the entity and of the industry in which it operates, the accountant can reasonably expect to exist. The accountant may select information from various sources to form expectations.

27

Precision

- The effectiveness of analytical procedures depends on their precision
 - Precision is a measure of how close the accountant's expectation is to the correct amount
 - In a review (limited assurance is obtained), the expectations need not be as precise as that in an audit (reasonable assurance)
 - The precision of expectations is a way the accountant can address areas believed to have increased risks of material misstatement

28

28

Types of Analytical Procedures

- Trend analysis
 - This is the analysis of changes in an account balance over time.
 - Simple trends typically compare the prior period's account balance to that of the current period.
 - More sophisticated trend analyses encompass multiple periods.

29

29

Types of Analytical Procedures

- Trend analysis is most appropriate when the account or relationship is predictable (for example, sales in a stable environment).
- When the entity has experienced significant operating or accounting changes, trend analysis is less effective (unless the accountant considers those changes when performing the trend analysis).

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COMMON ANALYTICAL PROCEDURE

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Types of Analytical Procedures

- Ratio analysis
 - The comparison of relationships between financial statement accounts (between two periods or over time), the comparison of an account with nonfinancial data (such as revenue per order or sales per square foot), or the comparison of relationships between entities in an industry (for example, gross-profit comparisons).

32

Types of Analytical Procedures

- Reasonableness testing
 - This is the analysis of account balances or changes in account balances within an accounting period that involves the development of an expectation based on financial data or nonfinancial data, or both.
 - For example, an expectation for hotel revenues could be developed using the average occupancy rate, the average rate for all rooms, or rate by category or class of room.

33

Types of Analytical Procedures

- Reasonableness testing
 - Another example is to use the number of employees hired and terminated, the timing of pay adjustments, and the effect of vacation and sick days to predict the change in payroll expense from the previous year to the current balance within a narrow dollar range.

34

34

Types of Analytical Procedures

- Regression analysis
 - More commonly used in financial statement audits, regression analysis is the use of statistical models to quantify the accountant's expectation in dollar terms, with measurable risk and precision.
 - In many cases, the entity has developed analytical procedures or internal models, or both, that it uses to monitor and evaluate its business and performance.

35

35

Identification

- The accountant considers whether the analytical procedures have identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount
 - Identification begins by comparing the accountant's expected value with the recorded amount. Because the accountant developed an expectation that allowed for the acceptance of up to a particular amount of difference without further explanation, the accountant then compares any unexpected differences to the threshold.

36

36

Inquiry/Investigation

- The accountant is required to investigate inconsistencies by inquiring of management
 - Consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the entity's business
- If management's responses are unreasonable or are inconsistent with results of other review procedures or the accountant's knowledge, perform other procedures.
 - Other procedures may be similar to those performed in an audit.

37

37

Documentation

- With respect to the performance of analytical procedures, it is expected that the accountant will, at a minimum, document the following:
 - a) The expectation and the factors considered in its development when that expectation and those factors are not otherwise readily determinable from the documentation.
 - b) Results of the comparison of the recorded amounts, or ratios developed from recorded amounts, with the expectations.

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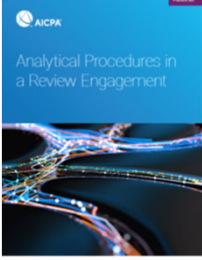
Documentation

h. Any inquiries of management and other procedures performed relating to the investigation of fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount and the results of such procedures. The documentation of inquiries of management are expected to include management's responses to the accountant's inquiries and the accountant's determination about whether management's responses appear reasonable

39

39

AICPA Practice Aid, *Analytical Procedures in a Review Engagement*



40

40

Review Performance Procedures

- Inquiries of members of management who have responsibility for financial and accounting matters
 - Illustrative inquiries included in AICPA Guide, *Preparation, Compilation, and Review Engagements*
- No prohibited procedures (only analytical procedures and inquiry are required but accountant can do more)
- Representation Letter
- Evaluate whether the accountant has obtained limited assurance

41

41

SSARS 26 – Revised Review Reporting Requirement

- SSARS 26 revises the signature requirement with respect to the accountant's review report to clarify that the report is required to be signed by the firm and not the CPA.
 - Sole practitioners are defined in the quality management standards as a firm
 - Does not preclude the CPA from personally signing in addition to the firm signature
 - Revised illustrative reports to remove references to "I" and "me" (not prohibited if appropriate)
 - Results in consistency with the auditing and attestation standards

42

42

SSARS 26 – New Documentation Requirement

- SSARS 26 revises the documentation requirements for a review to require the accountant, if the engagement is subject to an engagement quality review, to record:
 - The identity of the engagement quality reviewer for the engagement and the date and extent of such review
 - That the engagement quality review has been completed before the release of the accountant's review report

43

43

Compilation Engagements

44

Accountant's Responsibility for Subsequently Discovered Facts in a Compilation (or Preparation) Engagement

- Not required to perform any procedures after the date of the compilation report (or the issuance of prepared f/s)
- If a subsequently discovered fact becomes known to the accountant after the report or f/s release and accountant believes that the f/s may be misleading
 - Discuss with management/TCWG
 - If f/s need revision, inquire how management intends to address the matter

45

45

Accountant's Responsibility for Subsequently Discovered Facts in a Compilation (or Preparation) Engagement

- If management revises the f/s consider issuance of new compilation report
 - If f/s before revision were made available to third parties, assess whether those users are aware of the situation
 - If management does not take necessary steps consider whether to take steps to prevent further use
 - If not made available, advise management to not make available until new compilation report (or revised prepared f/s) are issued

46

46

SSARS 26 – Revised Compilation Reporting Requirement

- Same as the previously discussed review reporting requirement
- SSARS 26 revises the signature requirement with respect to the accountant's compilation report to clarify that the report is required to be signed by the firm and not the CPA.
 - Sole practitioners are defined in the quality management standards as a firm
 - Does not preclude the CPA from personally signing in addition to the firm signature
 - Results in consistency with the auditing and attestation standards

47

47

Recently issued attestation standards

48

SSAE No. 19, *Agreed-Upon Procedures Engagements*

- Issued December 2019
- Does not require an assertion from the responsible party
- Doesn't require that the procedures be known at the beginning of the engagement; instead provides flexibility by allowing procedures to be developed over the course of the engagement, by or with the assistance of the practitioner
- Engaging party required to acknowledge that the procedures are appropriate for the intended purpose of the engagement prior to the issuance of the report.
- Doesn't require intended users to take responsibility for the sufficiency of the procedures
- Permits general-use report unless certain conditions exist

49

SSAE No. 21, *Direct Examination Engagements*

- New AT-C section 206 that provides requirements and guidance as to how AT-C section 205 should be applied and adapted for direct engagements.
- Measurement or evaluation of the subject matter against the criteria
 - Allows practitioner to, and does not require that the responsible party, measure or evaluate subject matter against criteria
 - Obtaining a written assertion from responsible party not required in a direct engagement
- Renames AT-C section 205 as *Assertion-Based Examination Engagements*

Issued September 2020

ASB's Attestation Standards Task Force is working on standard/guide on generic internal control engagements.

50

SSAE No. 22, *Review Engagements*

- Amends AT-C section 210, *Review Engagements*
- More explicit description of the procedures that may be performed
- Report to include an informative summary of the work performed as basis for conclusion
- Allow adverse conclusion
- Conforming amendments to be consistent with SSAE No. 21 changes to AT-C section 105
- Doesn't address direct review engagements

Issued December 9, 2020.

51

Exposure Draft of Proposed
SSAE

*Amendments to the Attestation
Standards for Consistency With
the Issuance of AICPA Standards
on Quality Management*

52

Proposed SSAE, *Amendments to the Attestation
Standards for Issuance of AICPA Standards on
Quality Management*

- Issued August 25, 2023
- Comment period end date of December 1, 2023
- ASB expected to consider comments received on the ED at its meeting in January 2024 and consider issuance of final standard at its meeting in May 2024
- Expected to be effective at the same time as the other quality management standards – for engagements beginning on or after December 15, 2025

53

53

Proposed SSAE, *Amendments to the Attestation
Standards for Issuance of AICPA Standards on
Quality Management*

- Includes revisions that conform to proposed International Standard on Sustainability Assurance 5000 with respect to quality management concepts
 - ASB has a separate project to specifically consider the proposed ISSA 5000

54

54

Proposed SSAE, *Amendments to the Attestation Standards for Issuance of AICPA Standards on Quality Management*

- Primarily amends AT-C section 105, *Concepts Common to All Attestation Engagements*
- Intended to amend the attestation standards such that practitioners comply with SQMS No. 1
 - This proposed standard is not expected to significantly affect practice

55

55

Proposed SSAE, *Amendments to the Attestation Standards for Issuance of AICPA Standards on Quality Management*

- Additionally proposes revisions with respect to the use of *other practitioners*
 - Amends definition of *other practitioner* and requirements around the use of the other practitioner to align with the definition of *engagement team* in SQMS No. 1
 - Not intended to broaden the scope of an other practitioner

56

56

Current Activities of the ARSC

57

Current Activities of the ARSC

- Considering areas of practice causing challenges
- Responses:
 - 2023 edition of the authoritative Guide, *Preparation, Compilation, and Review Engagements* issued in September 2023
 - Analytical Procedures Practice Aid and AR-C section 70 decision tree discussed previously
 - Collaborating with ASB LCE task force to consider scalability issues

58


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59

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60
