

 AICPA

## 2019 Update on Standards for Reviews, Compilations, and Preparation Engagements

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### Disclaimer

Views expressed by presenter are expressed for purposes of deliberation, providing member services and other purposes exclusive of practicing public accounting. Views expressed by presenter 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.

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Session will cover:

- Recently issued standards and guidance for reviews, compilations, and preparation engagements
- Recent exposure drafts



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# Review of Financial Statements

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**Objective of a review**

- The objective of a review is to obtain limited assurance that there are no 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 or OCBOA).
- ACCOUNTANT ACCUMULATES REVIEW EVIDENCE TO OBTAIN A LIMITED LEVEL OF ASSURANCE
- IS AN ASSURANCE ENGAGEMENT

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**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 or OCBOA)
- AUDITOR ACCUMULATES AUDIT EVIDENCE TO OBTAIN A REASONABLE LEVEL OF ASSURANCE
- IS AN ASSURANCE ENGAGEMENT

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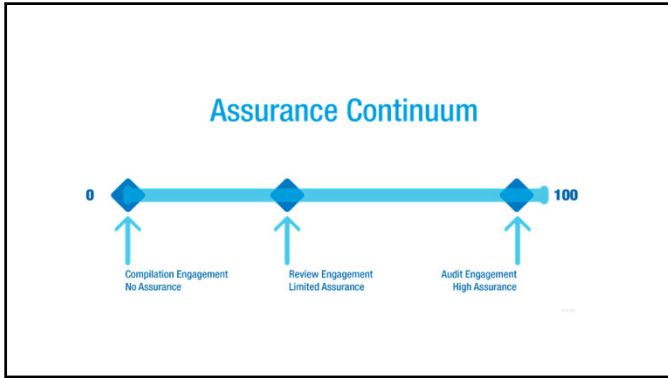
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### Review of Financial Statements

- AR-C section 90 applies to all reviews of historical financial information – excluding pro forma financial information (which is covered by the attestation standards)

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### 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
- Required to perform analytical procedures and inquires in all review engagements
  - May perform procedures in addition to analytical procedures and inquiries

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Recently issued SSARSs (standards for reviews, compilations, and preparation engagements)

- SSARS No. 24, *Omnibus Statement on Standards for Accounting and Review Services - 2018*

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Review of Financial Statements – Consideration of Going Concern

- Requirements revised by SSARS No. 24
  - Effective for reviews of financial statements for periods ending on or after June 15, 2019
- Required written rep that management has disclosed to the accountant all information relevant to the use of the going concern assumption

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Review of Financial Statements – Consideration of Going Concern

- If the FRF includes requirements for management (e.g., US GAAP, IFRS), perform procedures related to
  - Whether the going concern basis of accounting is appropriate
  - Management’s evaluation of whether there are conditions or events that raised substantial doubt about the entity’s ability to continue as a going concern

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Review of Financial Statements – Consideration of Going Concern

- If there are conditions or events that raised substantial doubt about the entity's ability to continue as a going concern, management's plans to mitigate those matters
- *The adequacy of the related disclosures in the financial statements*

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Review of Financial Statements – Consideration of Going Concern

- If the FRF does not include a requirement for management (e.g., cash or tax basis) and
- Conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time existed at the date of the prior period f/s (regardless of whether the substantial doubt was alleviated by the accountant's consideration of management's plans) or,

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Review of Financial Statements – Consideration of Going Concern

- In the course of performing procedures on the current period f/s, the accountant becomes aware of conditions or events that raise substantial doubt about the entity's ability to continue as a going concern:

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Review of Financial Statements – Consideration of Going Concern

- Inquire of management whether the going concern basis of accounting is appropriate.
- Inquire of management about its plans for dealing with the adverse effects of the conditions and events.

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Review of Financial Statements – Consideration of Going Concern

- Consider the adequacy of the disclosure about such matters in the financial statements.

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Review of Financial Statements – Consideration of Going Concern

• Reporting

–If, after considering conditions or events and management’s plans, the accountant concludes that substantial doubt about the entity’s ability to continue as a going concern remains, include an EOM

- Do not use conditional language concerning the existence of substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time.

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Review of Financial Statements – Consideration of Going Concern

- Reporting
  - If adequate disclosure is not made in the f/s, treat as a known departure from the FRF.

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Recent exposure drafts

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Proposed Revisions to AR-C section 90 to Harmonize with ISRE 2400 (Revised)

- Proposed requirement to determine materiality and apply materiality in designing procedures and evaluating results
- Not considered to be a significant change in practice since the CPA currently needs an understanding of materiality to conclude whether any material modifications need to be made to the f/s

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Proposed Revisions to AR-C section 90 to Harmonize with ISRE 2400 (Revised)

- Allow for the expression of an adverse review conclusion when f/s are materially and pervasively misstated
- If passed, ASB to consider revising AT-C section 210 to permit an adverse conclusion in an attestation review

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Proposed Revisions to AR-C section 90 to Harmonize with ISRE 2400 (Revised)

- Require a statement regarding independence in the accountant's review report.
- Exposed for public comment – June 19, 2019.
- Comment period ends September 20, 2019.
- ARSC to consider comments received at its meeting in October 2019; may vote to issue at its meeting in January 2020.
- If issued as final, proposed that revised AR-C sections would be effective for engagements performed in accordance with SSARSs on financial statements for periods ending on or after June 15, 2021. Early implementation would be permitted. This proposed effective date is provisional but will not be earlier than June 15, 2021.

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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

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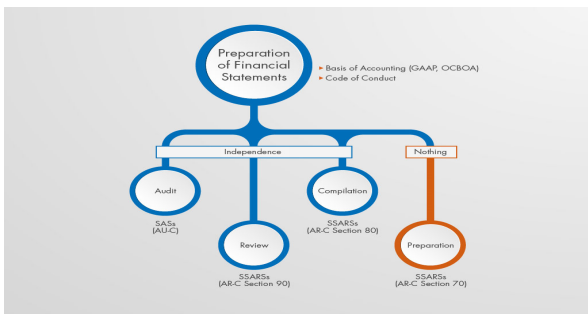
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When Does Section 70 Apply?




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Preparation of Financial Statements

- Preparation vs Bookkeeping Service
  - SSARSs preparation service is required when the accountant is **engaged to prepare financial statements**
  - **It is important to understand what the client has hired the CPA to do!**

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# Compilation Engagements

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When does an engagement "shift" from a preparation service to a compilation engagement?

- Level of service provided is determined by the client (as advised by the practitioner in many cases)
- Major difference here is with a compilation engagement a report is always issued, with a preparation a "no assurance legend is included on each page of the financial statements. If the accountant is unable to include a legend, a disclaimer may be issued
- Have users/third parties requested a report?



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**Compilation of Financial Statements That Omit Substantially All Disclosures**

- The accountant's compilation report is required to include a statement that the accountant "did not audit or review the f/s"
- Can the accountant audit or review a set of full-disclosure f/s and issue a compilation report on the same basic financial statements w/o notes?
  - YES

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Compilation of Financial Statements That Omit Substantially All Disclosures

- The financial statements are substantially different
- The set w/o notes was not audited or reviewed.
- Consider adding an OM paragraph to the accountant's compilation report stating that corresponding full disclosure financial statements were audited (or reviewed) and a reference to the auditor's report (or accountant's review report) on those f/s.

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Common Peer Review Findings

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Common Peer Review Findings - Reviews

- Failure to request management to provide specific written representations
  - Examples of common peer review findings include:
    - Failure to request all required representations.
    - Failure to request representations that are dated as of the date of the accountant's review report.
    - Failure to request representations for all periods covered by the review.

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Common Peer Review Findings - Reviews

- Failure to prepare reports in accordance with Professional Standards
  - Examples of common peer review findings include:
    - Failure to properly specify the date or period covered by the reviewed financial statements
    - Failure to include section headings.
    - Failure to clearly indicate the degree of responsibility, if any, the accountant is taking with respect to supplementary information that accompanies financial statements and the accountant's review report thereon

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Common Peer Review Findings - Reviews

- Failure to properly prepare review documentation
  - Failure to properly document the development of expectations.
  - Failure to properly document the comparison of recorded amounts or ratios developed from recorded amounts to expectations.

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Helpful Information and Resources

- Authoritative standards for non-issuers (SAs, SSARs, SSAEs, SQCSs) as of June 1 are available at
- <http://www.aicpa.org/RESEARCH/STANDARDS/Pages/default.aspx>
- AICPA Accounting and Auditing Technical Hotline  
(877) 242-7212 - [techinquiry@aicpa.org](mailto:techinquiry@aicpa.org)  
<http://www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx>

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## Center for Plain English Accounting (CPEA)

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## Questions?



Accounting & Financial Reporting

Compilation

Financial Reporting Center

Review

Audit & Attest

Assurance & Advisory Services

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