

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

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Standards*  
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**Mike Glynn, CPA, CGMA**

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)

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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.

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#### Session will cover:

- Revisions to AR-C sections 60, 70, 80, and 90 resulting from the issuance of SSARS No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions* and SSARS No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*
- Select performance requirements and best practices for reviews, compilations, and financial statement preparation engagements.
- Recently issued standards for examination and attestation review engagements
- Brief reminder regarding standards for agreed-upon procedures engagements
- Current ARSC activities

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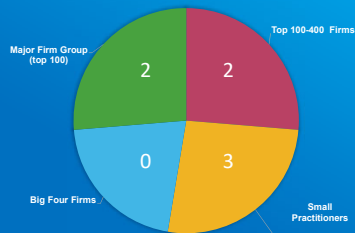
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## ARSC Mission and Members



7 ARSC 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.




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#### SSARS No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*

- Issued – February 2020
- Amends AR-C sections 60, 70, 80, and 90
  - Amendments to AR-C section 60 consist of moving definitions from service sections to the general principles; harmonizing definitions with auditing standards; and providing additional application guidance
  - Amendments to AR-C section 80 consist of harmonizing reporting on f/s prepared in accordance with provisions of a contract with revised AR-C section 90 and providing additional application guidance
  - Amendments to AR-C sections 70 and 90 are discussed in further detail later in this session.

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SSARS No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*

- Further converges AR-C section 90 with ISRE 2400 (Revised)
- Minimizes differences with the auditing standards regarding consistent concepts
- Effective for engagements performed in accordance with SSARSs for periods ending on or after December 15, 2021.

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

- 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.

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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 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

### 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

### 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)
  - pro forma financial information (which is covered by AT-C section 310)

### Review Performance Procedures

- New SSARS 25 performance requirements:
  - The accountant is required to plan and perform the review with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated.
  - ARSC does not believe that this will result in a significant change in practice.

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### Review Performance Procedures

- New SSARS 25 performance requirements:
  - Explicit requirement to determine materiality and apply this materiality in designing the procedures and evaluating the results obtained from those procedures.
  - Also required, in obtaining sufficient appropriate review evidence as a basis for a conclusion on the financial statements as a whole, to design and perform the analytical procedures and inquire to address all material items in the financial statements, including disclosures.

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### Review Performance Procedures

- New SSARS 25 performance requirements:
  - ARSC does not believe that this will result in a significant change in practice because the accountant has always had to have an understanding of materiality in order to conclude (as stated in the accountant's review report), that the accountant is not 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.

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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
  - A review engagement only requires an awareness of RMM. In contrast an audit requires a formal assessment of RMM.

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### 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
  - **NEW FROM SSARS 25 - 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

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### Review Performance Procedures

- If the accountant becomes aware of a matter that causes the accountant to believe the financial statements may be materially misstated, the accountant designs and performs additional procedures, as the accountant considers necessary in the circumstances, to be able to conclude on the financial statements.

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### Review Performance Procedures

- SSARS 25 includes new required inquiries about:
  - material commitments, contractual obligations, or contingencies that have affected or may affect the entity's financial statements, including disclosures
  - material nonmonetary transactions or transactions for no consideration in the financial reporting period under consideration

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### Review Performance Procedures

- SSARS 25 includes new:
  - Requirement for the accountant, during the review, to remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the accountant. If the accountant identifies significant transactions outside the entity's normal course of business in the course of performing the review, the accountant is required to inquire of management about
    - the nature of those transactions, and
    - whether related parties could be involved.

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### 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
  - Results in consistency with the auditing and attestation standards

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### SSARS 25 – New reporting requirements

- The accountant's review report is required to include a statement that 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.
  - Consistent with the statement required in the auditor's report in accordance with SAS No. 134.

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### SSARS 25 – New reporting requirements

- If substantial doubt about the entity's ability to continue as a going concern exists, include a separate section headed "Substantial Doubt About the Entity's Ability to Continue as a Going Concern"
  - Replaces required EOM but wording is similar
  - Consistent with SAS 134
  - No new performance requirements

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### SSARS 25 – New reporting requirements

- The separate section of the review report:
  - Draws attention to the note in the financial statements that discloses
    - the conditions or events identified and management's plans that deal with these conditions or events and
    - that these conditions or events indicate that substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time
  - States that the accountant's conclusion is not modified with respect to the matter

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### SSARS 25 – New reporting requirements

- If adequate disclosure about an entity's ability to continue as a going concern for a reasonable period of time is not made in the financial statements, the accountant should do the following:
  - Express a qualified or adverse conclusion, as appropriate.
  - In the "Basis for Qualified (Adverse) Conclusion" section of the accountant's review report, state that
    - substantial doubt exists about the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter or
    - substantial doubt about the entity's ability to continue as a going concern has been alleviated by management's plans but the financial statements do not adequately disclose this matter.

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### SSARS 25 – New reporting option

- Prior to the issuance of SSARS 25, the accountant was prohibited from modifying the standard report to include a statement that the financial statements are not in accordance with the applicable financial reporting framework (that is, an adverse conclusion).
  - ISRE 2400 (Revised) provides for the issuance of an adverse conclusion.

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### SSARS 25 – New reporting option

- ARSC concluded that it was not in the public interest to prohibit the expression of an adverse conclusion when the accountant is aware that the financial statements are materially and pervasively misstated.
  - Although the accountant may withdraw from the engagement, users of the financial statements may not then be made aware of such misstatements.
  - Accountant is not precluded from withdrawing

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## Documentation in a Review Engagement

- Breadcrumbs....
  - Documentation provides the principal support for the representation in the review report that the accountant performed the review in accordance with SSARs and the statement in the review report that, based upon the accountant's review, the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

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## Documentation in a Review Engagement

- Breadcrumbs....
  - Documentation provides the principal support for the representation in the review report that the accountant performed the review in accordance with SSARs and the statement in the review report that, based upon the accountant's review, the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

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## Documentation in a Review Engagement

- Documentation must be prepared a timely manner
- Must be in sufficient detail to enable an experienced accountant, having no previous connection to the review, to understand the following:
  - The nature, timing, and extent of the review procedures performed – includes the analytical procedures expectations
  - The review evidence obtained from the review procedures performed and the accountant's conclusions formed; and
  - Significant matters arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

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### Documentation in a Review Engagement

- Specifically include :
  - The engagement letter and representation letter
  - Communications with management and TCWG (including any matters involving fraud or NOCLAR)
  - Communications with other accountants that have audited or reviewed the financial statements of significant components
  - How inconsistencies were addressed
  - A copy of the reviewed financial statements and the accountant's review report thereon

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### 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

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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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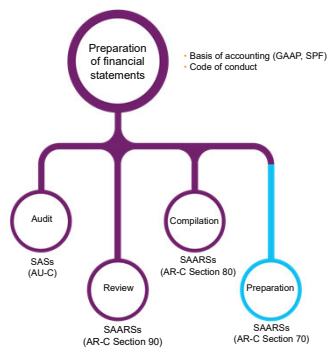
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### Preparation of Financial Statements

- If management refuses or cannot include the “no assurance” legend, the accountant can:
  - Issue a disclaimer report,
  - Perform a compilation, or
  - Resign.
- **NEW FROM SSARS 25 – If the accountant resigns, the accountant is required to inform management of the reasons for resigning.**
  - Consistent with compilation and review requirements

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## Compilation Engagements

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

### SSARSs Problem Areas

- 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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## 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

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## Recently issued attestation standards

### 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

SSAE 19 is effective for agreed-upon procedures reports dated on or after July 15, 2021.

### 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

SSAE No. 21 is effective for reports dated on or after June 15, 2022.

### 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
- Early implementation is permitted only if the practitioner also early implements the amendments to AT-C section 105, *Concepts Common to All Attestation Engagements*, included in SSAE No. 21.

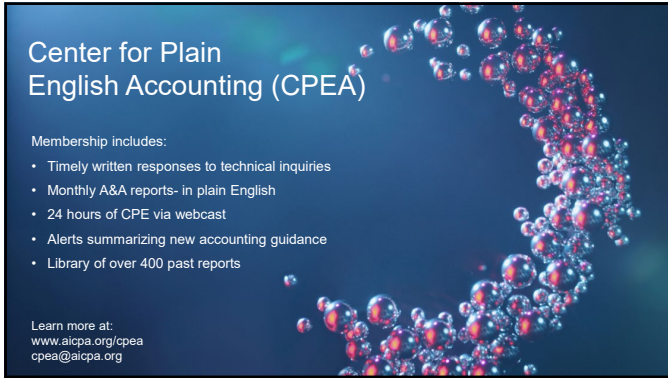
Issued December 9, 2020.

Effective for practitioners' review reports dated on or

## Current Activities of the ARSC

### Current Activities of the ARSC

- Non-authoritative practice aid on analytical procedures in a review engagement
  - Based on the Analytical Procedures Audit Guide
- Consideration of additional guidance/standards on the required application of AR-C section 70



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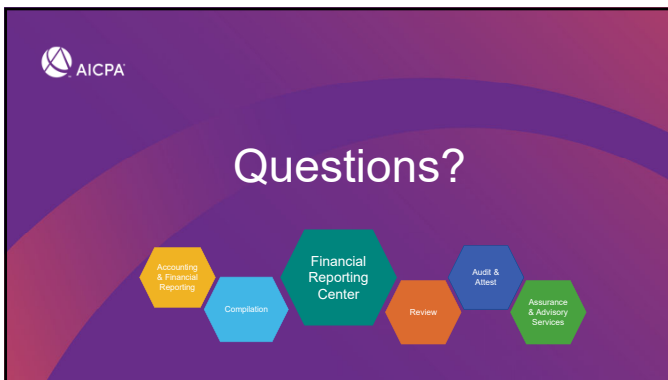
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## Questions?

Accounting & Financial Reporting    Compilation    Financial Reporting Center    Review    Audit & Attest    Assurance & Advisory Services

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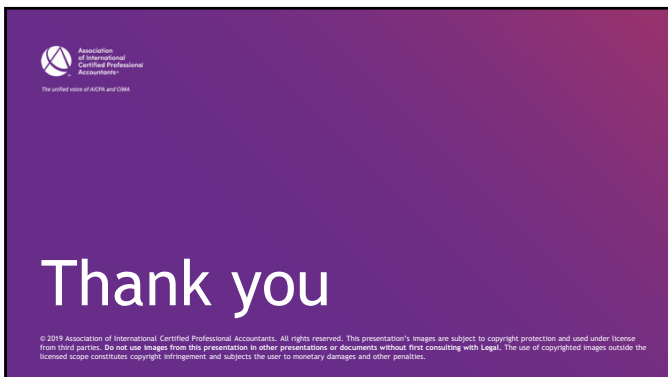
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