

California Board of Accountancy

# Peer Review Oversight Committee (PROC) Meeting

August 22, 2014



**10:00 a.m. – 1:00 p.m.**

California Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento, California 95815  
(916) 263-3680



**DEPARTMENT OF CONSUMER AFFAIRS**  
CALIFORNIA BOARD OF ACCOUNTANCY  
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**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
PEER REVIEW OVERSIGHT COMMITTEE (PROC)**

**PROC MEETING  
NOTICE & AGENDA**

**Friday, August 22, 2014  
10:00 a.m. – 1:00 p.m.**

California Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento, California 95815  
(916) 263-3680

**PROC Purpose Statement**

*To act as an advisory committee and assist the CBA in its oversight of the Peer Review Program.*

- I. Roll Call and Call to Order (**Robert Lee, Chair**).
- II. Report of the Committee Chair (**Robert Lee**).
  - A. Approval of the May 2, 2014 PROC Minutes.
  - B. Report on the May 29-30, 2014 CBA Meeting.
  - C. Report on the July 24, 2014 CBA Meeting.
  - D. Discussion of Recent Activities of the National Association of State Boards of Accountancy, Compliance Assurance Committee.
  - E. Discussion Regarding Proposed PROC Meeting Dates for 2015.
- III. Report on PROC Oversight Activities (**Robert Lee**).
  - A. Report on the May 13, 2014 American Institute Certified Public Accountant (AICPA) Peer Review Board Meeting.
  - B. Report on the May 21, 2014 Oversight of the California Society of Certified Public Accountant (CalCPA) Peer Reviewer Training.
  - C. Report on the May 22-23, 2014 Oversight of the CalCPA Peer Review Committee Meeting.
  - D. Report on the May 28, 2014, AICPA Peer Review Board Meeting.
  - E. Report on the June 26-27, 2014 Oversight of the CalCPA Peer Reviewer Training.
  - F. Report on the July 29, 2014 CalCPA Administrative Site Visit.
  - G. Report on the August 6, 2014 AICPA Peer Review Board Meeting.
  - H. Assignment of Future PROC Oversight Activities.

IV. Reports and Status of Peer Review Program (**CBA Staff**).

A. Status of PROC Roles and Responsibilities Activity Tracking.

**Break.**

V. Discussion Regarding the Impact of the AICPA Exposure Draft on Standards for Accounting and Review Services. (**Rafael Ixta, Enforcement Chief/Seid Sadat, PROC Member**).

VI. Report of the Enforcement Chief (**Rafael Ixta**).

A. Discussion Regarding the AICPA Peer Review Recall Process Relating to Firms that Perform Annual Audits of the Employee Retirement Income Security Act (ERISA).

B. Discussion Regarding the Draft Peer Review Report Due to the Legislature on January 1, 2015, Pursuant to Business and Professions Code section 5076(m).

C. Discussion of Potential Items to Include in the 2014 PROC Annual Report.

VII. Future Agenda Items (**CBA Staff**).

VIII. Public Comment for Items Not on the Agenda.

IX. Adjournment.

Please note: Action may be taken on any item on the agenda. All times are approximate. In accordance with the Bagley-Keene Open Meeting Act, all meetings of the PROC are open to the public. Government Code section 11125.7 provides the opportunity for the public to address each agenda item during discussion or consideration by the PROC prior to the PROC taking any action on said item. Members of the public will be provided appropriate opportunities to comment on any issue before the PROC, but the PROC Chair may, at his or her discretion, apportion available time among those who wish to speak. Individuals may appear before the PROC to discuss items not on the agenda; however, the PROC can neither discuss nor take official action on these items at the time of the same meeting. (Government Code sections 11125, 11125.7(a).) CBA members who are not members of the PROC may be attending the meeting. However, if a majority of members of the full board are present at the PROC meeting, members who are not members of the PROC may attend the meeting only as observers.

The meeting is accessible to individuals with physical disabilities. A person who needs a disability-related accommodation or modification in order to participate in the meeting may make a request by contacting April Freeman at (916) 561-1720, or by email at [afreeman@cba.ca.gov](mailto:afreeman@cba.ca.gov), or send a written request to the CBA office at 2000 Evergreen Street, Suite 250, Sacramento, CA 95815. Providing your request at least five (5) business days before the meeting will help to ensure availability of the requested accommodation.

For further information regarding this meeting, please contact:

April Freeman, Peer Review Analyst  
(916) 561-1720 or [afreeman@cba.ca.gov](mailto:afreeman@cba.ca.gov)  
California Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento, CA 95815

An electronic copy of this agenda can be found at <http://www.dca.ca.gov/cba/calendar.shtml>.

## **Approval of the May 2, 2014 PROC Minutes**

- Draft Minutes of the May 2, 2014 PROC Meeting.



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**PROC Item II.A.**  
 August 22, 2014

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)**  
**PEER REVIEW OVERSIGHT COMMITTEE (PROC)**

**MINUTES OF THE**  
**MAY 2, 2014**  
**PROC MEETING**

Hilton Los Angeles Airport  
 5711 West Century Boulevard  
 Los Angeles, CA 90045  
 (310) 410-4000

I. Roll Call and Call to Order.

PROC Chair Nancy Corrigan called the meeting to order at 9:02 a.m. on Friday, May 2, 2014. The meeting adjourned at 2:38 p.m.

Ms. Corrigan announced that Vice Chair Sherry McCoy would preside over the meeting and give the PROC report at the May 29-30, 2014 CBA meeting.

PROC Members:

Nancy Corrigan, Chair	9:02 a.m. – 2:38 p.m.
Sherry McCoy, Vice Chair	9:02 a.m. – 2:38 p.m.
Robert Lee	9:02 a.m. – 2:38 p.m.
Katherine Allanson	9:02 a.m. – 2:38 p.m.
Jeffrey DeLyser	9:02 a.m. – 2:38 p.m.
Seid M. Sadat	9:02 a.m. – 2:38 p.m.

Staff:

Patti Bowers, Executive Officer  
 Rafael Ixta, Chief, Enforcement Division  
 Paul Fisher, CPA, Supervising Investigative Certified Public Accountant  
 Sara Narvaez, Enforcement Manager  
 Vincent Johnston, Enforcement Manager  
 Kay Lewis, CPA, Investigative Certified Public Accountant  
 April Freeman, Peer Review Analyst  
 Alice Tran, Peer Review Analyst

Other Participants:

Michael Savoy, CPA, CBA, President  
 Linda McCrone, CPA, California Society of Certified Public Accountants (CalCPA)  
 Marcia Hein, CPA, CalCPA  
 Janice Gray, CPA, Compliance Assurance Committee (CAC), National Association of State Boards of Accountancy (NASBA)

II. Welcome Message from the CBA President.

CBA President Michael Savoy welcomed PROC members, staff and guests. He stated that he believes it is important for him to attend committee meetings to thank members for their hard work.

Mr. Savoy updated the PROC on his April 28, 2014 visit with legislative staff. He stated that the CBA is opposing Assembly Bill (AB) 2058 that would require any meetings of an advisory body consisting of one or two members be noticed and open to the public. The CBA is also opposing, unless amended, AB 2165 that would require the CBA to complete the application review process and issue a license to those who qualify within 45 days of the filing of the application.

Mr. Savoy briefed the PROC on topics such as the retroactive fingerprinting requirements, obtaining email address from licensees, and accepting academia as experience for licensure. He stated that the CBA is studying the current attest experience requirement for CPA licensure. He spoke about the Mobility Stakeholder Group that will monitor the new mobility standards, and the CBA's preparation for the 2015 Sunset Review.

III. Report of the Committee Chair.

A. Approval of January 31, 2014 Minutes.

Ms. McCoy asked if members had revisions to the minutes of the January 31, 2014 PROC meeting. Members did not have revisions to the minutes.

**It was motioned by Robert Lee, seconded by Jeffrey DeLyser, and unanimously carried by those present to adopt the minutes of the January 31, 2014 PROC meeting.**

B. Report on the March 20-21, 2014 CBA Meeting.

Ms. Corrigan stated that she attended the March CBA meeting and reported on business conducted at the most recent PROC meeting and recent PROC oversight activities. She also advised PROC members of the CBA's activities at their March meeting including pending legislation concerning public notice of meetings and the Mobility Stakeholders Group. She also spoke about the presentation on the Enforcement process, including the monitoring of out-of-state probationers. Ms. Corrigan advised the CBA that the PROC reviewed oversight reports of out-of-state administering entities and the National Peer Review Committee (NPRC).

Ms. Corrigan stated that she presented the PROC's Third Annual Report to the CBA. She stated it was well received and the CBA members acknowledged the progress the PROC has made and thanked members for all of their hard work. The PROC Annual Report was the focus of the CBA news release.

IV. Overview of CalCPA Peer Review Technical Review Process.

Ms. McCoy introduced Marcia Hein, CPA, who is a technical reviewer for CalCPA and is also active with the Colorado State Society of CPAs.

Ms. Hein described the duties and qualifications of a technical reviewer, the objective of a technical review, and explained in detail the process in which peer review reports are reviewed by technical reviewers at CalCPA. Ms. Hein provided members with an example of a technical review package and explained the various forms and checklists.

V. Report on PROC Activities.

A. Assignment of Future PROC Activities.

Ms. McCoy confirmed the following assignments:

- May 13, 2014, American Institute of Certified Public Accountants (AICPA) Peer Review Board Meeting – Nancy Corrigan and Seid Sadat
- May 21, 2014, CalCPA Peer Reviewer Training – Sherry McCoy and Katherine Allanson
- May 22-23, 2014, CalCPA Peer Review Committee (PRC) Meeting (Dana Point) – Katherine Allanson and Seid Sadat
- May 29-30, 2014 CBA Meeting (Southern California) – Nancy Corrigan and Sherry McCoy
- June 26-27, 2014, CalCPA Peer Reviewer Training – Seid Sadat
- July 24, 2014, CBA Meeting (Sacramento) – Nancy Corrigan
- August 6, 2014, AICPA Peer Review Board Meeting – Jeffrey DeLyser

B. Report on February 25, 2014 CalCPA Report Acceptable Body (RAB) Meeting.

Katherine Allanson attended the RAB meeting on February 25, 2014. She stated it was the first RAB meeting that she did not have the materials to review in advance of the teleconference. She added that since she has attended so many RAB meetings, not having the materials did not significantly impact her ability to monitor the meeting. The RAB consisted of four reviewers who reviewed 50 peer review reports. Ms. Allanson stated she continues to be impressed with the RAB members' knowledge about all of the reports. In addition, they have great rapport and are very respectful of each other, taking time to answer everyone's questions and explain their thought processes.

C. Report on March 19, 2014 CalCPA RAB Meeting.

Ms. McCoy attended the RAB meeting on March 19, 2014. She stated that she did not have materials to review prior to the teleconference. There was a guest speaker at the RAB meeting that spoke on industry specific topics. There was also discussion regarding the quality of peer reviewers, including training and monitoring.

D. Discussion of the CalCPA Annual Report on Oversight for Calendar Year 2012.

Ms. McCoy advised members that the CalCPA Annual Report on Oversight for the calendar year 2012 has been made available for review and requested questions or comments from members. Members did not have any questions or comments.

- E. Discussion of the CAC Report Regarding the Oversight of the National Peer Review Committee (NPRC).

The CAC Report Regarding the Oversight of the NPRC was discussed during Janice Gray's presentation. Members did not have any questions or comments.

- F. Discussion of the 2014 Administrative Site Visit to CalCPA.

Mr. Ixta suggested that one of the members who conducted the 2013 Administrative Site Visit attend again with a member who has not conducted a visit in order to maintain continuity. Last year Mr. Lee attended with Ms. McCoy, therefore, Mr. Lee should attend with the assistance from another member. Mr. DeLyser volunteered.

Linda McCrone stated that a Monday or Tuesday in July would be best for her schedule.

Staff was directed to provide Mr. Lee and Mr. DeLyser with materials from past visits.

- G. Discussion of the CalCPA Peer Review Committee Chair's Report on the Administrative Oversight Visit to CalCPA.

Ms. McCoy advised members that the CalCPA Peer Review Committee Chair's Report on the Administrative Oversight Visit to CalCPA has been made available for review and requested questions or comments from members. Members did not have any questions or comments.

## VI. Overview of Changes to the NASBA CAC Oversight of the NPRC.

Janice Gray, Chair of the NASBA CAC, provided members with the report titled, NASBA Compliance Assurance Committee Report on the AICPA National Peer Review Committee. The NPRC accepts all peer review reports for firms that do public company work, and any firms that choose to have their peer review done through the NPRC. The peer review only covers non-public company work; any public company work is reviewed by the Public Committee Accounting Oversight Board (PCAOB). The AICPA Peer Review Board (PRB) is researching why firms not doing public company work would want the NPRC to do their peer review.

Ms. Gray explained that the CAC meets three to four times per year, mostly telephonically, with one face-to-face meeting in conjunction with the PRB Oversight Committee meeting. At each meeting, the CAC receives a report from the two NASBA representatives who serve on the NPRC. NASBA has two appointments on the NPRC that are former board members. The CAC also reviews the AICPA Oversight Report, and contracts a third-party to prepare an administrative oversight report. Ms. Gray pointed out that that the report states that the administration of the NPRC is operating appropriately.

Ms. Gray spoke about the CAC's teleconferences in January and March 2014, with the next meeting to be held in May. She stated that the CAC will provide a recap of their meetings to state PROCs. She also advised members that a decision has been made that will not allow state PROC members to participate in the conference calls; however, the CAC is going to have two meetings per year at which state PROC members may attend. The NASBA and AICPA representatives will be available so that PROC members can hear their reports first hand. PROC members will be able to submit questions in advance of the teleconferences.

Ms. Gray added that the CAC developed four training videos on how to set up and operate Peer Review Oversight Committees. The videos are available on the resource page on NASBA's website.

At the request of Jim Brackens, Vice President of Ethics and Practice Quality, AICPA, Ms. Gray advised members that there are a lot of changes coming to the peer review program. She also spoke about the peer reviews called into question by the U.S. Department of Labor.

In response to a member question, Ms. Gray spoke about the AICPA Exposure Draft for Standards for Accounting & Review Services (SARS). She gave background on the issue and stated that the AICPA PRB has not taken an official position on this issue. Since this issue affects California firms, Mr. Ixta suggested that a PROC member be appointed to work with staff to draft an issue paper for discussion at the next PROC meeting. Seid Sadat volunteered to work with staff on the issue paper.

## VII. Reports and Status of Peer Review Program

### A. Status of PROC Roles and Responsibilities Activity Tracking.

April Freeman stated that the activity tracking chart for 2014 was updated to capture recently attended activities and upcoming events.

Mr. Seid asked if the PROC is going to continue to receive peer review reporting statistics. Mr. Ixta advised that the statistics provided were only for the implementation period. The Renewal Unit is currently collecting the Peer Review Reporting Forms at the time of renewal and contacting any licensee who does not submit a form. If the Renewal Unit cannot gain compliance, the licensee will be referred to the Enforcement Division for further action.

Ms. Freeman added that staff is still following up with licensees who have reported that they are subject to peer review, and attempting to gain compliance with citations.

## VIII. Report of the Enforcement Chief.

### A. Discussion of Newly Developed Committee Member Resource Guide.

Mr. Ixta informed members that, under the direction of the Executive Officer, the CBA developed a Committee Member Resource Guide. He stated the guide will be helpful in orienting new members. Mr. Ixta covered several of the topics in the guide, including committee roles, staff liaisons, the appointment process, and reimbursement.

The Committee Members Resource Guide is available on the CBA website.

### B. Discussion of the AICPA Peer Review Matching Program with Annual Audits of the Employee Retirement Insurance Security Act (ERISA).

Mr. Ixta advised members of the issue paper drafted by Ms. McCrone. He explained that ERISA audits are required to be disclosed during a peer review and the peer reviewers required to select one of those engagements in a system review. Through the U.S. Department of Labor, the AICPA has become aware of CPA firms that failed to disclose ERISA audits.

Ms. McCrone expanded on the information and gave statistics on how many firms fall into the following categories:

- firms with a peer review in progress
- firms with a previous engagement review that had accepted an ERISA audit after the peer review year end
- database errors
- firms with a previous system review that performed an ERISA audit in a year between peer review
- firms that performed an ERISA audit during their peer review year, but did not notify the administering entity or their peer reviewer of such engagement.

Ms. McCrone stated that there are about 15 California firms that fall in the last category and will have their peer reviews recalled. The state boards will be notified of the recalled peer reviews. However, due to confidentiality, the state board will need to contact the firm for details. She added that the matching process is still in progress.

IX. Future Agenda Items.

1. AICPA Exposure Draft on Standards for Accounting & Review Services
2. Peer Review Recalls/Replacements

X. Public Comment for Items Not on the Agenda.

Ms. Corrigan informed members that as part of the PROC's succession planning, she is terminating her role as PROC Chair and has recommended that Mr. Lee be appointed Chair. If approved at the May 29-30, 2014 CBA meeting, Mr. Lee will assume the Chair position at the August 22, 2014 PROC meeting.

XI. Adjournment.

There being no further business, Ms. McCoy adjourned the meeting at 2:38 p.m. on Friday, May 2, 2014.

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Sherry McCoy, CPA, Vice Chair

April Freeman, Peer Review Analyst, prepared the PROC meeting minutes. If you have any questions, please call (916) 561-1720.

# **Discussion of Recent Activities of the National Association of State Boards of Accountancy, Compliance Assurance Committee**

- Compliance Assurance Committee Summary from 06-24-2014 Conference Call.



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**PROC Item II.D.**  
August 22, 2014

**Discussion of Recent Activities of the National Association  
of State Boards of Accountancy, Compliance Assurance Committee**

**Presented by:** Robert Lee, Peer Review Oversight Committee (PROC) Chair  
**Date:** August 1, 2014

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**Purpose of the Item**

The purpose of this agenda item is to provide Peer Review Oversight Committee with a copy of the summary (**Attachment**) of the National Association of State Boards of Accountancy (NASBA) Compliance Assurance Committee (CAC) conference call.

**Action(s) Needed**

It is requested that members review the summary and be prepared to discuss any concerns.

**Background**

NASBA charged the CAC with promoting effective oversight of compliance with professional standards by CPAs and their firms. As such, the focus of the CAC is to recommend a nationwide strategy promoting a mandatory program for compliance assurance acceptable to Boards of Accountancy and their respective PROCs.

**Comments**

The CAC held a conference call on June 24, 2014. During the call, dates for the first semi-annual conference call with state PROCs were discussed. The conference call will be held on Wednesday, September 10, 2014, at 8:00 a.m. Pacific Time. PROC members assigned to provide oversight to the conference call will be provided with the call-in information. The purpose of the conference call will be for the CAC to share information with the PROCs and to provide guidance to PROCs.

**Fiscal/Economic Impact Considerations**

None.

**Recommendation**

None.

**Attachment**

Compliance Assurance Committee Summary from 06-24-2014 Conference Call.

Compliance Assurance Committee  
Summary from 06.24.2014 conference call

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**Attendees:** Janice Gray, Chair; Alan Long, Henry Krostich, Jim Gero, Edwin (Ed) Jolicoeur, Mark Hobbs, Elizabeth Gantnier, and Michael McClure; Leona Johnson (staff); and Rebecca Gebhardt (staff).

1. Janice Gray opened the meeting at 1:05 p.m. CST. Leona Johnson did roll call
  2. The CAC approved the January CAC meeting minutes.
  3. Report from Regulator Representative on Peer Review Board – Alan Long gave a report on the Peer Review Board (PRB) Meeting held May 13, 2014. Mr. Long informed the committee of the following items:
    - a. Exposure draft for changes to reports, doing away with exceptions, was approved by PRB – comment deadline is July 5<sup>th</sup>
    - b. The PRB approved peer review recall guidance.
    - c. Quality control manual representation letter was approved.
    - d. ARSC update: an exposure draft on new levels of service which removes financial statement preparation services out of peer review. The exposure draft should be ready for the August PRB meeting, it has a 45 day comment period.
    - e. Practice monitoring of the future – Mr. Long reported that he and Sue Coffey made a presentation at each of the NASBA Regional meetings. This is still a work in progress and they don't know what it is all going to look like just yet.
  4. Discussion of DOL issues and recall guidance. - Ms. Gray assured the committee that the AICPA and NASBA are taking this very seriously. Elizabeth Gantnier shared with the group that she is a member of the AICPA's Audit Standards Board (ASB) committee. Ms. Gantnier reported that the ASB is now working with the PRB and has also met with a subgroup of the NPRC.
  5. Report from NPRC Representatives –Mark Hobbs reported that NPRC has been busy with firms that didn't properly complete engagement population – EBP. Mr. Hobbs reported that he continues to participate and observe RAB meetings each two weeks; sometimes he is a chair and other times he is member. He reports the process is working well and the peer review season is going strong. Ms. Gray asked Mark and Art to include stats of the peer reviews in the NPRC report for our August meeting.
  6. The matrix for the basis of the guidance on failed reports was approved and the task force will be providing an initial draft of the white paper in August.
  7. A task force was appointed to begin planning for the 2015 PROC Summit.
  8. Dates were discussed for the semi-annual PROC call to provide guidance to PROCs as needed and to share information.
-

## **Discussion Regarding Proposed PROC Meeting Dates for 2015**

- Memo, dated July 10, 2014.



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**PROC Item II.E.**  
August 22, 2014

### **Discussion Regarding Proposed PROC Meeting Dates for 2015**

**Member:** Robert Lee, Peer Review Oversight Committee (PROC) Chair

**Date:** July 10, 2014

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#### **Purpose of the Item**

The purpose of this agenda item is to present the PROC members with proposed PROC meeting dates for 2015.

#### **Action Needed**

PROC members may choose to adopt or modify the 2015 PROC meeting dates.

#### **Background**

The 2015 California Board of Accountancy (CBA) meeting dates are as follows:

- January 22-23, 2015 – Southern California
- March 19-20, 2015 – Northern California
- May 28-29, 2015 – Southern California
- July 23, 2015 – Northern California
- September 17-18, 2015 – Southern California
- November 19-20, 2015 – Northern California

#### **Comments**

The EAC meeting dates for 2015 are:

- January 29, 2015 – Northern California
- April 30, 2015 – Southern California
- July 9, 2015 – Northern California
- October 22, 2015 – Southern California
- December 10, 2015 – Southern California

The proposed PROC meeting dates for 2015 are:

- January 30, 2015 – Northern California
- May 1, 2015 – Southern California
- August 21, 2015 – Northern California
- December 9, 2015 – Southern California

**Fiscal/Economic Impact Considerations**

None.

**Recommendation**

Staff recommends the PROC adopt or modify the proposed dates. After adoption, the dates will be submitted to the CBA for approval.

## **Assignment of Future PROC Oversight Activities**

- Memo, dated August 1, 2014, with the following attachment:
  - 2014 Year-at-a-Glance CBA PROC Calendar, updated August 1, 2014.



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**PROC Item III.H.**  
August 22, 2014

### **Assignment of Future PROC Oversight Activities**

**Presented by:** Robert Lee, Peer Review Oversight Committee (PROC) Chair

**Date:** August 1, 2014

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#### **Purpose of the Item**

The purpose of this agenda item is to assign members to specific PROC oversight activities.

#### **Action(s) Needed**

It is requested that all members bring their calendars to the August 22, 2014 PROC meeting and be prepared to accept assignments.

#### **Background**

None.

#### **Comments**

The PROC's 2014 Year-at-a-Glance calendar (**Attachment**) includes meetings and activities that are currently scheduled for the following:

- California Board of Accountancy
- PROC
- American Institute of Certified Public Accountants' (AICPA) Peer Review Board
- California Society of Certified Public Accountants' (CalCPA) Report Acceptance Body
- CalCPA Peer Review Committee
- AICPA Peer Reviewer Training
- National Association of State Boards of Accountancy Compliance Assurance Committee

#### **Fiscal/Economic Impact Considerations**

None.

#### **Recommendation**

It is recommended that members continue to use the calendar as a resource when accepting assignments to participate in meetings and activities held by the AICPA and CalCPA.

#### **Attachment**

2014 Year-at-a-Glance CBA PROC Calendar, updated August 1, 2014.

**CALIFORNIA BOARD OF ACCOUNTANCY (CBA)  
PEER REVIEW OVERSIGHT COMMITTEE (PROC)  
2014 Year-at-a-Glance Calendar**  
(as of August 1, 2014)

**JANUARY 2014**

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**FEBRUARY 2014**

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**MARCH 2014**

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**APRIL 2014**

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**MAY 2014**

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**JUNE 2014**

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**JULY 2014**

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**AUGUST 2014**

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31						

**SEPTEMBER 2014**

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**OCTOBER 2014**

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**NOVEMBER 2014**

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**DECEMBER 2014**

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- COMMITTEE/TASK FORCE**
- CBA** - California Board of Accountancy
  - PROC** - Peer Review Oversight Committee
  - AICPA** - American Institute of Certified Public Accountants
  - PRB** - Peer Review Board
  - CalCPA** - California Society of Certified Public Accountants
  - RAB** - Report Acceptance Body
  - PRC** - Peer Review Committee
  - NASBA** - National Assoc. of State Boards of Accountancy
  - CAC** - Compliance Assurance Committee

- GENERAL LOCATION**
- NC** - NORTHERN CALIFORNIA
  - SC** - SOUTHERN CALIFORNIA
  - T** - TELECONFERENCE
  - SD** - SAN DIEGO
  - LV** - LAS VEGAS
  - DE** - DENVER
  - DU** - DURHAM
  - DP** - DANA POINT
  - OC** - ORANGE COUNTY
  - SM** - SAN MATEO

- ON SHADED DATES CBA OFFICE IS CLOSED**
- CBA MEETING**
  - PROC MEETING**
  - AICPA PRB MEETING**
  - CalCPA RAB MEETING**
  - CalCPA PRC MEETING**
  - PEER REVIEWER TRAINING**
  - ADMINISTRATIVE SITE VISIT**
  - NASBA CAC MEETING**

## **Status of PROC Roles and Responsibilities Activity Tracking**

- Memo, dated July 30, 2014, with the following attachment:
  - PROC Roles and Responsibilities Activity Tracking 2014, updated July 30, 2014.



**DEPARTMENT OF CONSUMER AFFAIRS**  
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**PROC Item IV.A.**  
August 22, 2014

### **Status of PROC Roles and Responsibilities Activity Tracking**

**Presented by:** April Freeman, CBA Staff

**Date:** July 30, 2014

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#### **Purpose of the Item**

The purpose of this agenda item is provide Peer Review Oversight Committee (PROC) members with a status of the oversight activities scheduled for and performed in 2014.

#### **Action(s) Needed**

It is requested that members review the information presented and advise CBA staff of any necessary revisions.

#### **Background**

None.

#### **Comments**

The PROC Roles and Responsibilities Activity Tracking chart has been updated to reflect 2014 activities (**Attachment**).

#### **Fiscal/Economic Impact Considerations**

None.

#### **Recommendation**

None.

#### **Attachment**

PROC Roles and Responsibilities Activity Tracking 2014, updated July 30, 2014.

**Peer Review Oversight Committee (PROC) Roles and Responsibilities  
Activity Tracking – 2014**

As of July 30, 2014

**Attachment**

<b>Activity*</b>	<b>Notes</b>
<p><b>PROC MEETINGS</b></p> <ul style="list-style-type: none"> <li>Conduct four one-day meetings.</li> </ul>	<ul style="list-style-type: none"> <li>PROC Meetings Held: 1/31, 5/2</li> <li>PROC Meetings Scheduled: 8/22, 12/10</li> </ul>
<p><b>ADMINISTRATIVE SITE VISIT</b></p> <ul style="list-style-type: none"> <li>Conduct, at a minimum, an annual administrative site visit of the peer review program provider.</li> </ul>	<ul style="list-style-type: none"> <li>Site Visit Held: CalCPA 7/29</li> </ul>
<p><b>PEER REVIEW COMMITTEE MEETING</b></p> <ul style="list-style-type: none"> <li>Attend all peer review program providers' Peer Review Committee (PRC) meetings.</li> <li>Perform, at a minimum, an annual review of peer review program providers' Peer Review Committees.</li> <li>Ensure peer review program provider is adhering to California Board of Accountancy (CBA) standards.</li> </ul>	<ul style="list-style-type: none"> <li>Meetings Attended: American Institute of Certified Public Accountants (AICPA) Peer Review Board (PRB) 1/30, 5/13, 5/28; CalCPA Peer Review Committee (PRC) 5/22-23</li> <li>Meetings Scheduled: AICPA PRB 8/6</li> </ul>
<p><b>PEER REVIEW SUBCOMMITTEE MEETING</b></p> <ul style="list-style-type: none"> <li>Attend at least four of each peer review program provider's peer review subcommittee meetings to observe the acceptance of peer review reports.</li> <li>Perform, at a minimum, four annual reviews of peer review program provider's peer review subcommittee meetings.</li> <li>Ensure that peer reviews are being accepted in a consistent manner.</li> </ul>	<ul style="list-style-type: none"> <li>Meetings Attended: CalCPA Report Acceptance Body (RAB) 1/22, 2/25, 3/19</li> <li>Meetings Scheduled:</li> </ul>
<p><b>REVIEW SAMPLING OF PEER REVIEWS</b></p> <ul style="list-style-type: none"> <li>Perform sampling of peer review reports.</li> </ul>	<ul style="list-style-type: none"> <li>See Administrative Site Visit</li> </ul>
<p><b>PEER REVIEWER TRAINING</b></p> <ul style="list-style-type: none"> <li>Ensure that peer reviewers are properly qualified.</li> </ul>	<ul style="list-style-type: none"> <li>Training Attended: CalCPA Peer Reviewer 5/21, 6/26-27</li> </ul>
<p><b>EVALUATION OF BOARD-RECOGNIZED PEER REVIEW PROGRAM PROVIDERS</b></p> <ul style="list-style-type: none"> <li>Develop policies and procedures for reviewing and recommending approval to the CBA for new peer review providers.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<p><b>ANNUAL REPORT TO THE CALIFORNIA BOARD OF ACCOUNTANCY (CBA)</b></p> <ul style="list-style-type: none"> <li>Prepare an annual report to the CBA regarding the results of its independent oversight of the Peer Review program.</li> </ul>	<ul style="list-style-type: none"> <li>TBD</li> </ul>
<p><b>CBA MEETINGS</b></p>	<ul style="list-style-type: none"> <li>Meetings Attended: 1/22-23, 3/20-21, 5/29-30, 7/24</li> <li>Meetings Scheduled: 9/18-19, 11/20-21</li> </ul>
<p><b>ADDITIONAL ACTIVITIES</b></p>	

\*Activities based on the November 9, 2010 PROC Agenda Item IV – Role of the PROC.

# Discussion Regarding the Impact of the AICPA Exposure Draft for Standards on Accounting and Review Services

- Memo, dated July 22, 2014, with the following attachments:
  - Exposure Draft on proposed Statements on Standards on Accounting and Review Services *Preparation of Financial Statements; Compilation Engagements; and Association with Financial Statements*, issued October 23, 2013.
  - Summary of Exposure Draft.

**DEPARTMENT OF CONSUMER AFFAIRS**

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**PROC Item V.**  
August 22, 2014

**Discussion Regarding the Impact of the AICPA Exposure Draft  
on Standards for Accounting and Review Services**

**Presented by:** Rafael Ixta, Chief of Enforcement and Seid Sadat, PROC Member

**Date:** July 22, 2014

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**Purpose of the Item**

The purpose of this agenda item is to determine the impact on mandatory peer review from the AICPA Exposure Draft for Standards for Accounting and Review Services.

**Action(s) Needed**

Peer Review Oversight Committee (PROC) members are requested to review the Exposure Draft on Proposed Statements on Standards for Accounting and Review Services *Preparation of Financial Statements; Compilation Engagements; and Association with Financial Statements*, issued October 23, 2013 (**Attachment 1**) and the summary of the Exposure Draft prepared by Seid Sadat, PROC Member (**Attachment 2**).

**Background**

California Business and Professions Code section 5076(a) requires accounting firms to have a peer review report of their accounting and auditing practice every three years.

Title 16, California Code of Regulations (CCR), section 39, defines "accounting and auditing" practice as any services that are performed using the following professional standards: Statements on Auditing Standards (SAs), Statements on Standards for Accounting and Review Services (SSARS), Statements on Standards on Attestation Engagements (SSAEs), Government Auditing Standards, and audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).

CCR section 42 excludes from peer review firms, which at their highest level of work, perform only compilations where no report is issued in accordance with the provisions of SSARS.

**Comments**

The proposed SSARS *Preparation of Financial Statements* and SSARS *Compilation Engagements* creates a distinct separation between accounting (preparation) and reporting (compilation) services. The accountant would no longer have to be concerned

## Discussion Regarding the Impact of the AICPA Exposure Draft on Standards for Accounting and Review Services

Page 2 of 3

whether the financial statements are to be used internally by knowledgeable parties or by third parties.

The following table from the exposure draft compares and contrasts attributes of the proposed SSARs *Preparation of Financial Statements* and *Compilation of Financial Statements*:

	<b>Compilation</b>	<b>Preparation</b>
When does the standard apply?	When an accountant is engaged to perform a compilation	When an accountant is engaged to prepare financial statements
Is an engagement letter required?	Yes	Yes
Is the accountant required to determine if he or she is independent of the client?	Yes	No
If the accountant is not independent, is that fact required to be disclosed?	Yes	N/A
Does the engagement require a report?	Yes	No <sup>1</sup>
May the financial statements go to users outside of management?	Yes	Yes
May the financial statements omit notes?	Yes	Yes

<sup>1</sup> When an accountant is engaged to prepare financial statements, the accountant is required to include an adequate statement on each page of the financial statements indicating that no CPA provides any assurance on the financial statements. If the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer on the financial statements.

The accountant would follow the compilation standard when engaged, and would always be required to issue a compilation report. The proposed preparation standard would apply when the accountant is engaged to prepare financial statements but is not engaged to perform an audit, review, or compilation on those financial statements. A report would not be required even when the financial statements are expected to be used by or presented to a third party.

CBA staff believe that CCR section 42 would continue to govern which firms are subject to peer review based the whether a report was issued or not.

### **Fiscal/Economic Impact Considerations**

None.

## **Discussion Regarding the Impact of the AICPA Exposure Draft on Standards for Accounting and Review Services**

Page 3 of 3

### **Recommendation**

None.

### **Attachments**

1. Exposure Draft on proposed Statements on Standards for Accounting and Review Services *Preparation of Financial Statements; Compilation Engagements; and Association with Financial Statements*, issued October 23, 2013.
2. Summary of Exposure Draft.

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# EXPOSURE DRAFT

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## PROPOSED STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

*PREPARATION OF FINANCIAL STATEMENTS*

*COMPILATION ENGAGEMENTS*

*ASSOCIATION WITH FINANCIAL STATEMENTS*

*(To supersede paragraphs .05–.06 of AR section 60, Framework for Performing and Reporting on Compilation and Review Engagements; AR section 80, Compilation of Financial Statements; AR section 110, Compilation of Specified Elements, Accounts, or Items of a Financial Statement; AR section 300, Compilation Reports on Financial Statements Included in Certain Prescribed Forms; and AR section 600, Reporting on Personal Financial Statements Included in Written Personal Financial Plans [AICPA, Professional Standards].)*

**October 23, 2013**

**Comments are requested by May 2, 2014**

Prepared by the AICPA Accounting and Review Services Committee for comment from persons interested in compilation and reporting issues.

Comments should be addressed to Mike Glynn at [mglynn@aicpa.org](mailto:mglynn@aicpa.org).



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New York, NY 10036-8775*

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# EXPLANATORY MEMORANDUM

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## Introduction

This memorandum provides background on the proposed Statements on Standards for Accounting and Review Services (SSARSs) *Preparation of Financial Statements*; *Compilation Engagements*; and *Association With Financial Statements*.

The proposed SSARS *Compilation Engagements* would supersede the following sections in *Professional Standards*:

- paragraphs .05–.06 of AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements*
- AR section 80, *Compilation of Financial Statements*
- AR section 110, *Compilation of Specified Elements, Accounts, or Items of a Financial Statement*
- AR section 300, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*
- AR section 600, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*

The accompanying proposed standards apply the Accounting and Review Services Committee's (ARSC's) clarity drafting conventions. However, the proposed standards should not be considered simply a clarity redraft of the extant SSARSs because they represent a significant revision in requirements when an accountant is engaged to prepare financial statements, as well as a repositioning of the compilation service that differs from extant standards in several important aspects. The expected significant effects on practice with respect to these proposed revisions are discussed within this document.

The proposed SSARSs would result in the following sections in the codified SSARSs:

- AR section 50, *Association With Financial Statements*
- AR section 70, *Preparation of Financial Statements*
- AR section 80, *Compilation Engagements*

## Background

### Clarity

ARSC has concluded that it would be in the public interest to have all the professional literature for engagements performed in accordance with Statements on Auditing Standards and SSARSs drafted using the same conventions and, therefore, has substantially utilized the clarity drafting conventions used by the Auditing Standards Board (ASB) in its clarity project. The resulting clarified SSARSs will be easier to read, understand, and apply.

The proposed SSARSs have been drafted in accordance with ARSC's clarity drafting conventions, which include the following:

- Establishing objectives for each clarified AR section
- Including a —Definitions” section, when relevant, in each clarified AR section
- Separating requirements from application and other explanatory material
- Numbering application and other explanatory material paragraphs using an A- prefix and presenting them in a separate section that follows the —Requirements” section
- Using formatting techniques, such as bullet lists, to enhance readability

### **Convergence**

Although ARSC has considered International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*, and has adopted certain of the requirements, the proposed SSARS *Compilation Engagements* has not been fully harmonized with ISRS 4410 because some of the underlying premises (for example, the requirement to determine independence) are different in the United States of America.

### **Effective Date**

The proposed SSARS *Preparation of Financial Statements* would be effective for the preparation of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

The proposed SSARS *Compilation Engagements* would be effective for compilation reports on financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

The proposed SSARS *Association With Financial Statements* would be effective for financial statements with which the accountant is associated on or after December 15, 2015. Early implementation is permitted.

### **Changes From Existing Standards**

The following represents what ARSC believes would be the most significant changes to extant SSARSs if the proposed SSARSs are issued as final standards.

#### **Three New SSARSs**

ARSC proposes to issue three new SSARSs as follows:

- The proposed SSARS *Preparation of Financial Statements* would provide requirements and guidance when an accountant is engaged to prepare financial statements for an entity but has not been engaged to perform a compilation, review, or audit with respect to those financial statements.

- The proposed SSARS *Compilation Engagements* would provide requirements and guidance that would apply only when an accountant is engaged to perform a compilation of historical financial statements.
- The proposed SSARS *Association With Financial Statements* would provide requirements and guidance when an accountant agrees to permit the use of the accountant's name in a report, document, or written communication that includes financial statements with respect to which the accountant did not issue a compilation, review, or audit report.

The following table compares and contrasts attributes of the proposed SSARSs *Preparation of Financial Statements* and *Compilation of Financial Statements*:

	<b>Compilation</b>	<b>Preparation</b>
When does the standard apply?	When an accountant is engaged to perform a compilation	When an accountant is engaged to prepare financial statements
Is an engagement letter required?	Yes	Yes
Is the accountant required to determine if he or she is independent of the client?	Yes	No
If the accountant is not independent, is that fact required to be disclosed?	Yes	N/A
Does the engagement require a report?	Yes	No <sup>1</sup>
May the financial statements go to users outside of management?	Yes	Yes
May the financial statements omit notes?	Yes	Yes

<sup>1</sup> When an accountant is engaged to prepare financial statements, the accountant is required to include an adequate statement on each page of the financial statements indicating that no CPA provides any assurance on the financial statements. If the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer on the financial statements.

### **Submission of Financial Statements**

In accordance with the extant SSARSs, an accountant is required to comply with the provisions of AR section 80, *Compilation of Financial Statements*, whenever the accountant is engaged to report on compiled financial statements or *submits* (defined in paragraph .04 of AR section 60 as “presenting to management financial statements that the accountant has prepared”) financial statements to a client or third parties.

The applicability of the compilation standards when the accountant submitted financial statements worked satisfactorily when SSARS No. 1, *Compilation and Review of Financial Statements*, was issued in December 1978, and for many years thereafter, because it was fairly easy to determine whether the accountant had prepared financial statements. However, in the current practice environment, including cloud computing and other applications, it has become increasingly difficult to determine whether the accountant, management, or both prepared the financial statements. This difficulty has created inconsistency in practice, which is not in the

public interest. In order to address this issue, ARSC has determined to revise the applicability of the compilation standards, so the standards apply only when the accountant is engaged to perform a compilation engagement.

Additionally, the AICPA Professional Ethics Executive Committee has revised Interpretation No. 101-3, “Nonattest Services,” under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05). Among the revisions is a clarification that financial statement preparation is considered outside the scope of the attest engagement and, therefore, constitutes a nonattest service. ARSC is supportive of this clarification because it is in harmony with how the 2011 edition of *Government Auditing Standards* (the Yellow Book) treats the preparation of financial statements. The clarification is also consistent with the views of practitioners who believe that the preparation of financial statements is a responsibility of management and an essential part of an entity’s system of internal control. The clarification is effective for engagements covering periods beginning on or after December 15, 2014.

ARSC is aware that many entities will determine that they would like to engage the accountant to perform the preparation service as they would any other accounting service or bookkeeping engagement. ARSC believes that it is not appropriate to require the accountant to perform, or the entity to accept, a compilation service when the desired service is a preparation service. Given this, ARSC is also aware that many state laws and regulations, loan documents, and other contracts and agreements require a compilation engagement. To address this issue, ARSC is proposing that when the accountant is engaged to perform the preparation service, the accountant would follow the requirements and guidance in the proposed SSARS *Preparation of Financial Statements*. When the accountant is *engaged* to perform the compilation service, the accountant would follow the requirements and guidance in the proposed SSARS *Compilation Engagements*.

The result is that the accountant need not be concerned with issues such as who prepared the financial statements because the standards would only apply when the accountant is *engaged* to perform either the preparation or the compilation service. The accountant also would not need to be concerned with whether the financial statements are intended to be used by third parties because the accountant would issue a compilation report only when engaged to do so.

#### **Specific requests of respondents**

1. ARSC asks for specific feedback about whether respondents are supportive of the revised applicability for the compilation engagement so that the standard applies only when the accountant is engaged to perform a compilation engagement.
2. ARSC asks for specific feedback about whether respondents are supportive of the issuance of standards and guidance for an engagement to prepare financial statements.

#### **Requirement to Obtain a Signed Engagement Letter or Other Suitable Form of Written Agreement**

Although extant AR section 80 requires that the accountant document the understanding with management regarding the services to be performed for compilation engagements through a written agreement with management, extant AR section 80 does not require that the written understanding be signed by either the accountant or management.

Paragraph 9 of the proposed SSARS *Preparation of Financial Statements* and paragraph 7 of the proposed SSARS *Compilation Engagements* require that the engagement letter or other suitable form of written agreement be signed by (a) the accountant or the accountant's firm and (b) management.

**Specific request of respondents**

3. ARSC asks for specific feedback about whether respondents are supportive of the requirement that the engagement letter or other suitable form of written agreement be signed by (a) the accountant or the accountant's firm and (b) management.

**Proposed SSARS, *Preparation of Financial Statements***

**Statement or Legend on Each Page of Financial Statements That the Accountant Has Prepared**

The proposed SSARS would not require a report when an accountant is engaged to prepare financial statements—even if the financial statements are expected to be used by, or provided to, a third party. In order to be transparent to users of financial statements that no accountant has issued an audit or review report on the financial statements, ARSC proposes that each page of the financial statements include a statement or legend stating that no CPA provides any assurance on the financial statements.

The appropriate statement or legend communicates substantially the same lack of assurance as a compilation report in accordance with extant AR section 80. Examples of an adequate statement or legend on each page of the financial statements include the following:

- No CPA provides any assurance on these financial statements.
- These financial statements have not been audited or reviewed, and no CPA provides any assurance on them.

In a rare situation in which the accountant is not able to include an appropriate statement or legend on each page of the financial statements, the accountant would be required to issue a disclaimer report.

The accountant's name is not required to be included in the financial statements that the accountant has prepared or any document that contains the financial statements.

**Specific request of respondents**

4. ARSC asks for specific feedback about whether respondents are supportive of the proposed requirement that each page of the financial statements that the accountant has prepared include a statement or legend stating that no CPA provides any assurance on the financial statements or else the accountant would be required to issue a disclaimer.

**Proposed SSARS, *Compilation Engagements***

**Accountant's Compilation Reports**

Because ARSC is proposing that the proposed SSARS would be applicable when the accountant is engaged to perform a compilation engagement, a report would always be required. Because a report would be required, a significant change in the proposed compilation standard would be that any differentiation between financial statements for general use and financial statements that are not expected to be used by a third party (commonly referred to as *management use only financial statements* or *SSARS 8 financial statements*) has been eliminated.

ARSC proposes that the compilation report be reconfigured to look significantly different from an audit or review report. ARSC believes that if the report looks significantly different, it would help users understand that the accountant has not obtained any assurance and does not express an opinion, conclusion, nor provide any assurance on the financial statements.

The proposed accountant's compilation report would retain the requirement from extant paragraph .21 of AR section 80 that the accountant modify the compilation report when the accountant's independence is impaired. The accountant would not be required to disclose the reasons the accountant's independence is impaired. However, if the accountant elects to disclose a description about the reasons the accountant's independence is impaired, the accountant would be required to ensure that all reasons are included in the description.

**Specific request of respondents**

5. ARSC asks for specific feedback about whether respondents are supportive of the proposed compilation reporting requirements.

**Proposed SSARS, *Association With Financial Statements***

The proposed SSARS moves the requirements and guidance of AU section 504, *Association With Financial Statements* (AICPA, *Professional Standards*), to the SSARSs literature. ARSC and the ASB believe that the requirements and guidance should reside in the SSARSs because the standard relates to unaudited financial statements.

The proposed SSARS addresses the circumstance in which the accountant permits the use of the accountant's name in a report, document, or written communication that contains financial statements on which the accountant has not issued a compilation, review, or audit report. In those cases, the accountant would be required to read the financial statements in the report, document, or written communication containing the financial statements in order to identify obvious material misstatements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management.

The proposed SSARS would apply regardless of whether the accountant prepared the financial statements.

**Specific request of respondents**

6. ARSC asks for specific feedback about whether respondents are supportive of the proposed standard that would provide requirements and guidance when an accountant permits the use of

the accountant's name in a report, document, or written communication containing financial statements on which the accountant did not issue a compilation, review, or audit report.

### **Effective Date**

The proposed SSARs would be effective as follows:

- The proposed SSARS *Preparation of Financial Statements* would be effective for the preparation of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.
- The proposed SSARS *Compilation Engagements* would be effective for compilation reports on financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.
- The proposed SSARS *Association With Financial Statements* would be effective for financial statements with which the accountant is associated on or after December 15, 2015. Early implementation is permitted.

### **Specific request of respondents**

7. ARSC asks for specific feedback about whether respondents are supportive of the proposed effective dates, specifically the permitting of early implementation.

### **Guide for Respondents**

ARSC is seeking comments on the seven specific requests (1–7) posed in the “Changes From Existing Standards” section of this document. Please clearly indicate in your comment letter the request to which you are responding.

Additionally, ARSC requests comments on specific paragraphs in the proposed SSARs. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific recommendations for any suggested changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for ARSC to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after May 2, 2014, for a period of one year. Responses should be sent to Mike Glynn at [mglynn@aicpa.org](mailto:mglynn@aicpa.org) and received by May 2, 2014.

### **Comment Period**

The comment period for this exposure draft ends on May 2, 2014.

**Accounting and Review Services Committee (ARSC)**  
(2012–2013)

Michael L. Brand, *Chair*  
Joseph S. Beck  
Mike Fleming  
Jay H. Goldberg

Janice L. Gray  
Angie J. Moss  
Carl G. Peterson  
Thad Scott

**ARSC Clarity Task Force**  
(2012–2013)

Charles J. McElroy, *Chair*

Michael L. Brand

**AICPA Staff**

Charles E. Landes  
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*Professional Standards*

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*Senior Technical Manager*  
*Audit and Attest Standards*  
*Staff Liaison—Accounting and*  
*Review Services Committee*

Richard I. Miller  
*Special Counsel*

# **Proposed Statement on Standards for Accounting and Review Services *Preparation of Financial Statements***

## **Introduction**

### **Scope**

1. This proposed Statement on Standards for Accounting and Review Services (SSARS) would apply when an accountant in public practice is engaged by management to prepare financial statements. (Ref: par. A1)

This proposed SSARS may also be applied, adapted as necessary in the circumstances, to other historical or prospective financial information.<sup>1</sup> (Ref: par. A2)

2. This proposed SSARS does not apply to
  - the preparation of financial statements when the accountant is engaged to perform an audit, review, or compilation with respect to those financial statements.
  - the preparation of tax returns or other data prepared solely for submission to taxing authorities.
  - personal financial statements that are prepared for inclusion in written personal financial plans prepared by the accountant.
  - financial statements prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings. (Ref: par. A3)

### **The Preparation Engagement**

3. The preparation of financial statements is a nonattest service and does not require the accountant to determine whether the accountant is independent of the entity. (Ref: par. A4)
4. In addition, in the preparation of financial statements, the accountant is not required to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements or otherwise report on the financial statements.

### **Effective Date**

5. This proposed SSARS is effective for the preparation of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

### **Objective**

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<sup>1</sup> The Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants engaged to perform a compilation engagement with respect to pro forma or prospective financial information.

6. The accountant's objective is to prepare financial statements pursuant to the financial reporting framework adopted by management.

## Definitions

7. For purposes of SSARs, the following terms have the meanings attributed as follows:

**Financial reporting framework.** A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements (for example, U.S. GAAP, International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework).

**Management.** The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance (for example, executive members of a governance board or an owner-manager). Also see **those charged with governance**.

**Special purpose framework.** A financial reporting framework other than generally accepted accounting principles (GAAP) that is one of the following bases of accounting:

- a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.
- c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).
- d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.
- e. **Other basis.** A basis of accounting that utilizes a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as *other comprehensive bases of accounting* (OCBOA).

**Those charged with governance.** The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of an entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may

include management personnel (for example, executive members of a governance board or an owner-manager). Also see **management**.

## Requirements

### Engagement Acceptance

8. The accountant should not accept an engagement to prepare financial statements unless the accountant has agreed to the terms of the engagement with management and recorded those terms in an engagement letter or other suitable form of written agreement. The engagement letter or other suitable form of written agreement should include the following: (Ref: par. A5–A6 and A11)
  - a. Identification of the financial reporting framework adopted by management, including whether the financial statements will omit substantially all disclosures required by the applicable financial reporting framework (Ref: par. A7)
  - b. The objective, scope, and limitations of the engagement
  - c. The responsibilities of the accountant, including the requirement to perform the engagement in accordance with SSARSs and comply with relevant ethical requirements
  - d. The responsibilities of management for (Ref: par. A8–A9)
    - i. preventing and detecting fraud
    - ii. ensuring that the entity complies with laws and regulations applicable to its activities
    - iii. the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the preparation of financial statements
    - iv. providing the accountant with
      - (1) access to all information of which management is aware that is relevant to the preparation and presentation of the financial statements, such as records, documentation, and other matters
      - (2) additional information that the accountant may request from management for the purpose of the preparation of financial statements
      - (3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries
  - e. The understanding that an adequate statement will be included on each page of the financial statements indicating that no CPA provides any assurance on the financial statements (Ref: par. A17–A18)
9. The engagement letter or other suitable form of written agreement should be signed by
  - a. the accountant or the accountant’s firm and
  - b. management. (Ref: par. A10)

## **The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework**

10. The accountant should obtain an understanding of the financial reporting framework adopted by management intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management. (Ref: par. A12)

## **Preparing the Financial Statements**

11. The accountant should prepare the financial statements using the records, documents, explanations, and other information provided by management.
12. The accountant should include an adequate statement on each page of the financial statements indicating that no CPA provides any assurance on the financial statements. If the accountant is unable to include an adequate statement on each page of the financial statements, the accountant should issue a disclaimer on the financial statements (Ref: par. A13–A14)
13. When preparing financial statements in accordance with a special purpose framework, the accountant should include a description of the financial reporting framework on the face of the financial statements or in a note to the financial statements. (Ref: par. A15)
14. If, during the preparation of financial statements, the accountant assists management with significant judgments regarding amounts or disclosures to be reflected in the financial statements, the accountant should discuss those judgments with management so management understands the significant judgments reflected in financial statements and accepts responsibility for those judgments. (Ref: par. A16)
15. If the accountant becomes aware that the records, documents, explanations, or other information, including significant judgments, used in the preparation of the financial statement are incomplete, inaccurate, or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information.
16. The accountant should withdraw from the engagement and inform management of the reasons for withdrawing if the accountant is unable to complete the engagement because management has failed to provide corrected records, documents, explanations, or other information, including significant judgments, as requested. (Ref: par. A17–A18)

## **Financial Statements That Omit Substantially All the Disclosures Required by the Financial Reporting Framework Adopted by Management**

17. The accountant should not prepare financial statements that omit substantially all disclosures required by the financial reporting framework adopted by management unless the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. (Ref: par. A19)

## **Documentation in a Preparation Engagement**

- 18.** The accountant should prepare documentation in connection with each preparation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following:
  - a.* The engagement letter or other suitable form of written documentation with management, as described in paragraphs 8–9
  - b.* A copy of the financial statements that the accountant prepared
- 19.** If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.

## **Application and Other Explanatory Material**

**Scope** (Ref: par. 1–2 and 8)

- A1.** The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this proposed SSARS) requires the accountant to apply professional judgment. Examples of accounting services to assist management in the preparation of financial statements include engagements to
  - maintain depreciation schedules or prepare bank reconciliations.
  - prepare or propose certain adjustments, such as those applicable to deferred income taxes, depreciation, or leases.
  - draft financial statement notes.
- A2.** Although this proposed SSARS does not apply to other historical or prospective financial statements, this proposed SSARS may be applied, adapted as necessary in the circumstances, to certain financial information or presentations, such as the following:
  - Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
  - Supplementary information
  - Required supplementary information
  - Pro forma financial information
  - Prospective financial information, including budgets, forecasts, or projections
- A3.** Financial statements are prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings when the

- a. service consists of being an expert witness.
- b. service consists of being a “trier of fact” or acting on behalf of one.
- c. accountant’s work under the rules of the proceedings is subject to analysis and challenge.
- d. accountant is engaged by an attorney to do work that will be protected by the attorney’s work product privilege, and such work is not intended to be used for other purposes.

**The Preparation Engagement (Ref: par. 3)**

- A4.** Interpretation No. 101-3, “Nonattest Services,” of Rule 101, *Independence (AICPA, Professional Standards)*, addresses the accountant’s considerations with respect to independence when performing nonattest services for attest clients. For example, the accountant may prepare monthly or other interim financial statements and be engaged to perform an audit, review, or compilation engagement with respect to the annual financial statements. The accountant needs to be aware that the performance of the preparation services may impair independence unless the safeguards described in Interpretation No. 101-3 are met.

**Engagement Acceptance (Ref: par. 8–9)**

- A5.** The understanding with management regarding the services to be performed for engagements to prepare financial statements is required by paragraph 8 to be recorded in an engagement letter or other suitable form of written agreement and, accordingly, a verbal understanding is insufficient. An engagement letter is the most common, and usually the most convenient, method for documenting the understanding with management regarding the services to be performed for engagements to prepare financial statements. A formal contract is another suitable form of written agreement.
- A6.** Both management and the accountant have an interest in documenting the agreed-upon terms of the engagement to prepare financial statements before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or may expect the accountant to protect management against certain risks or to perform certain functions, including those that are management’s responsibility.
- A7.** Management’s decision about the financial reporting framework that it adopts for the financial statements is made in the context of the intended use of the financial statements and the requirements of any applicable law or regulation.
- A8.** In accordance with this proposed SSARS, the accountant is required to obtain the agreement of management on management’s responsibilities in relation to the financial statements as a condition precedent to accepting the engagement. In smaller entities, management may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management’s agreement on an informed basis, the accountant may find it necessary to discuss those

responsibilities with management in advance of seeking management's agreement on its responsibilities.

- A9.** The accountant is entitled to rely on management to provide all relevant information for the engagement. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations, and other information relevant to the preparation of the financial statements in accordance with the financial reporting framework adopted by management. The information provided may include, for example, information about management's assumptions, intentions, or plans underlying development of accounting estimates needed to prepare the financial statements in accordance with the applicable financial reporting framework.
- A10.** In some entities, other parties, such as those charged with governance, may be the appropriate or authorized parties to sign the engagement letter or other suitable form of written agreement.
- A11.** An illustrative example of an engagement letter for an engagement to prepare financial statements is presented in exhibit A, "Illustrative Engagement Letter."

**The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework** (Ref: par. 10)

- A12.** The requirement that the accountant obtain an understanding of the financial reporting framework adopted by management intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management does not prevent the accountant from accepting an engagement to prepare financial statements for an entity in an industry in which the accountant has no previous experience. The accountant may obtain such understanding, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals who are knowledgeable about the industry.

**Preparing the Financial Statements** (Ref: par. 8, 12–14, and 16)

- A13.** The adequate statement on each page of the financial statements, including related notes, is intended to avoid misunderstanding on the part of users with respect to the accountant's involvement with the financial statements. The statement is made at management's discretion, and the accountant or the accountant's firm name is not required to be included. The accountant is concerned that the indication is not misleading. Examples of an adequate statement on each page of the financial statements include the following:
- No CPA provides any assurance on these financial statements.
  - These financial statements have not been audited or reviewed, and no CPA expresses an opinion or a conclusion nor provides any assurance on them.

**A14.** An example of a disclaimer that the accountant may issue is as follows:

The accompanying financial statements of XYZ Company as of and for the year ended December 31, 20XX, were not reviewed or audited by me (us) and, accordingly, I (we) do not express an opinion, a conclusion, nor provide any assurance on them.

**A15.** A description of the special purpose framework is usually placed next to or under the title of the financial statements (for example ~~statement of assets and liabilities~~—modified cash basis”). However, the description may be placed elsewhere in the financial statements.

**A16.** In the preparation of financial statements, the accountant may provide assistance to management with significant judgments (for example, the accountant may advise management on alternative accounting policies that are significant to the financial statements or help management with significant judgments regarding material accounting estimates).

**A17.** In circumstances addressed by the requirements of this proposed SSARS in which withdrawal from the engagement is necessary, the responsibility to inform management and those charged with governance of the reasons for withdrawing provides an opportunity to explain the accountant’s ethical obligations.

**A18.** When making a determination about whether and how to withdraw from an engagement, the accountant may wish to consult with legal counsel.

**Financial Statements That Omit Substantially All the Disclosures Required by the Financial Reporting Framework Adopted by Management** (Ref: par. 17)

**A19.** When management elects to include disclosures about only a few matters in the notes to the financial statements, such disclosures may be labeled ~~Selected Information~~—Substantially All Disclosures Required by [*the applicable financial reporting framework*] Are Not Included.”

A20.

**Exhibit A—Illustrative Engagement Letter** (Ref: par. A11)

The following is an example of an engagement letter for an engagement to prepare financial statements prepared in accordance with accounting principles generally accepted in the United States of America. This engagement letter is not authoritative but is intended as an illustration that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances and is drafted to refer to the preparation of financial statements for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

To the appropriate representative of management of ABC Company:<sup>1</sup>

You<sup>2</sup> have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, and changes in stockholders' equity, and cash flows for the year then ended and the related notes to the financial statements.<sup>3,4</sup> We are pleased to confirm our acceptance and our understanding of this engagement to prepare the financial statements of ABC Company by means of this letter.

**Our Responsibilities**

The objective of our engagement is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you. We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion or provide any assurance on the financial statements.

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<sup>1</sup> The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the engagement to prepare financial statements, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A10.

<sup>2</sup> Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

<sup>3</sup> If the accountant is to be engaged to prepare financial statements that omit the statement of cash flows and the related notes, the sentence may be revised to read "You have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity." The following additional sentence may then be added: "These financial statements will not include a statement of cash flows and related notes to the financial statements."

<sup>4</sup> The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping services.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

### **Your Responsibilities**

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking, in accordance with SSARs, the engagement to prepare your financial statements:

- a. The prevention and detection of fraud
- b. To ensure that the entity complies with the laws and regulations applicable to its activities
- c. To make all financial records and related information available to us
- d. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement to prepare financial statements

You agree that the financial statements will clearly indicate that no CPA provides any assurance on them.

### **Other relevant information**

Our fees for these services . . . .

*[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):*

*You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us.]*

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein, and our respective responsibilities.

Sincerely yours,

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*[Signature of accountant or accountant's firm]*

Acknowledged and agreed on behalf of ABC Company by:

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*[Signed]*  
*[Name and title]*

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[Date]

# **Proposed Statement on Standards for Accounting and Review Services *Compilation Engagements***

## **Introduction**

### **Scope**

1. This proposed Statement on Standards for Accounting and Review Services (SSARS) applies when the accountant is engaged to perform a compilation engagement. This proposed SSARS may also be applied, adapted as necessary in the circumstances, to other historical or prospective financial information. (Ref: par. A1)

### **The Compilation Engagement**

2. Because a compilation engagement is not an assurance engagement, a compilation engagement does not require the accountant to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements.

### **Effective Date**

3. This proposed SSARS is effective for compilation reports on financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

### **Objective**

4. The accountant's objective in a compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements and report in accordance with this standard without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

### **Definitions**

5. For purposes of SSARSs, the following terms have the meanings attributed as follows:

**Applicable financial reporting framework.** The financial reporting framework adopted by management and, when appropriate, those charged with governance, in the preparation and fair presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements or that is required by law or regulation.

**Basic financial statements.** Financial statements excluding supplementary information and required supplementary information.

**Financial reporting framework.** A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the

financial statements (for example, U.S. GAAP, International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework).

**Generally accepted accounting principles (GAAP).** Reference to *generally accepted accounting principles* in SSARs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to Rules 202, *Compliance With Standards* and 203, *Accounting Principles* (AICPA, *Professional Standards*).

**Management.** The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance (for example, executive members of a governance board or an owner-manager). Also see **those charged with governance**.

**Misstatement.** A difference between the amount, classification, presentation, or disclosure of a reported financial item in the financial statements and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from fraud or error.

**Required supplementary information.** Information that a designated accounting standard-setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standard-setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of that information have been established.

**Special purpose framework.** A financial reporting framework other than GAAP that is one of the following bases of accounting:

- a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.
- c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).
- d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.

- e. **Other basis.** A basis of accounting that utilizes a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as *other comprehensive bases of accounting* (OCBOA).

**Supplementary information.** Financial information presented outside the financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework.

**Those charged with governance.** The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel (for example, executive members of a governance board or an owner-manager). Also see **management**.

## Requirements

### Engagement Acceptance

6. The accountant should not accept a compilation engagement unless the accountant has agreed to the terms of the engagement with management and recorded those terms in an engagement letter or other suitable form of written agreement. The engagement letter or other suitable form of written agreement should include the following: (Ref: par. A2–A3 and A8)
  - a. Identification of the applicable financial reporting framework, including whether the financial statements will omit substantially all disclosures required by the applicable financial reporting framework (Ref: par. A4)
  - b. The objective, scope, and limitations of the engagement
  - c. The responsibilities of the accountant, including the requirement to perform the engagement in accordance with SSARSs and comply with relevant ethical requirements
  - d. The responsibilities of management for (Ref: par. A5–A6)
    - i. the preparation and fair presentation of the financial statements in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial statements and the intended users;
    - ii. unless the financial statements omit substantially all disclosures, the inclusion of all informative disclosures that are appropriate for the financial reporting framework used to prepare the entity’s financial statements. If the financial statements are prepared in accordance with a special purpose framework, this includes

- (1) a description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from GAAP, the effects of which need not be quantified, and informative disclosures similar to those required by GAAP, in the case of special purpose financial statements that contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, (Ref: par. A21–A22)
  - (2) a description of any significant interpretations of the contract on which the special purpose financial statements are prepared, in the case of financial statements prepared in accordance with a contractual basis of accounting, and
  - (3) additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation.
- iii. the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error;
  - iv. preventing and detecting fraud;
  - v. ensuring that the entity complies with laws and regulations applicable to its activities;
  - vi. the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the compilation engagement; and
  - vii. providing the accountant with
    - (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
    - (2) additional information that the accountant may request from management for the purpose of the compilation; and
    - (3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.
  - e. The expected form and content of the accountant’s report
7. The engagement letter or other suitable form of written agreement should be signed by
- a. the accountant or the accountant’s firm and
  - b. management. (Ref: par. A7)

**The Accountant’s Knowledge and Understanding of the Entity’s Financial Reporting Framework**

8. The accountant should obtain an understanding of the applicable financial reporting framework intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management. (Ref: par. A9)

## Compilation Procedures

9. The accountant should read the financial statements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management and consider whether such financial statements appear to be appropriate in form and free from obvious material misstatements.
10. If, in the course of the engagement, the accountant becomes aware that the records, documents, explanations, or other information, including significant judgments, provided by management are incomplete, inaccurate, or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information. (Ref: par. A10)
11. If the accountant becomes aware during the course of the engagement that
  - a. the financial statements do not adequately refer to or describe the applicable financial reporting framework (Ref: par. A11);
  - b. revisions to the financial statements are required for the financial statements to be in accordance with the applicable financial reporting framework; or
  - c. the financial statements are otherwise misleading (Ref: par. A12–A13)the accountant should propose the appropriate revisions to management.
12. The accountant should withdraw from the engagement and inform management of the reasons for withdrawing if (Ref: par. A14–A15)
  - the accountant is unable to complete the engagement because management has failed to provide records, documents, explanations, or other information, including significant judgments, as requested, or
  - management does not make appropriate revisions that are proposed by the accountant or does not disclose such departures in the financial statements, and the accountant determines to not disclose such departures in the accountant's compilation report. (Ref: par. A14)

## The Accountant's Compilation Report

13. The accountant's compilation report should be in writing and should (Ref: par. A17 and A20)
  - a. identify the entity whose financial statements have been subjected to the compilation engagement.
  - b. specify the date or period covered by the financial statements.
  - c. include a statement that management (owners) is (are) responsible for the financial statements.

- d.* include a statement that the accountant performed the compilation engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA.
- e.* 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, accordingly, does not express an opinion, a conclusion, nor provide any assurance on the financial statements.
- f.* include the signature of the accountant or the accountant's firm. (Ref: par. A18)
- g.* include the city and state where the accountant practices. (Ref: par. A19)
- h.* include the date of the report, which should be the date that the accountant has completed the procedures required by this proposed SSARS.

#### **Accountant's Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework**

- 14.** Unless the entity elects to omit substantially all disclosures, the accountant should modify the compilation report when that accountant becomes aware that the financial statements do not include
  - a.* a description of the special purpose framework. (Ref: par. A21)
  - b.* a summary of significant accounting policies. (Ref: par. A22)
  - c.* an adequate description about how the special purpose framework differs from GAAP. The effects of these differences need not be quantified. (Ref: par. A23)
  - d.* informative disclosures similar to those required by GAAP when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP. (Ref: par. A24)
- 15.** In the case of financial statements prepared in accordance with a contractual basis of accounting, the accountant should modify the compilation report if the financial statements do not adequately describe any significant interpretations of the contract on which the financial statements are based.
- 16.** The accountant's compilation report on financial statements prepared in accordance with a special purpose framework should
  - when management has a choice of financial reporting frameworks in the preparation of such financial statements, make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
  - when the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. (Ref: par. A25)

17. The accountant's compilation report on financial statements prepared in accordance with a special purpose framework should include a separate paragraph that
- indicates that the financial statements are prepared in accordance with the applicable special purpose framework,
  - refers to the note to the financial statements that describes the framework, if applicable, and
  - states that the special purpose framework is a basis of accounting other than GAAP.

### **Reporting When the Accountant Is Not Independent**

18. When the accountant is not independent with respect to the entity, the accountant should indicate the accountant's lack of independence in a final paragraph of the accountant's compilation report. (Ref: par. A26–A28)
19. If the accountant elects to disclose a description about the reasons the accountant's independence is impaired, the accountant should include all such reasons in the description.

### **Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework**

20. The accountant should not issue an accountant's compilation report on financial statements that omit substantially all disclosures required by the applicable financial reporting framework unless the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.
21. When reporting on financial statements that omit substantially all disclosures 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. A29–A30)
- 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
22. The omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation report like any other departure from the applicable

financial reporting framework, and the nature of the departure and its effects, if known, should be disclosed in accordance with paragraphs 23–26.

### **Reporting Known Departures From the Applicable Financial Reporting Framework**

23. When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and the financial statements are not revised, or the departure is not disclosed in the notes to the financial statements, the accountant should modify the compilation report to disclose the departure.
24. The effects of the departure on the financial statements should be disclosed if such effects have been determined by management or are readily known to the accountant as the result of the accountant's procedures. (Ref: par. A32)
25. If the effects of the departure have not been determined by management or are not readily known to the accountant as a result of the accountant's procedures, the accountant is not required to determine the effects of a departure; however, in such circumstances, the accountant should state in the report that such determination has not been made by management.
26. If the accountant believes that modification of the compilation report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the engagement and provide no further services with respect to those financial statements. (Ref: par. A15)
27. The accountant should not modify the compilation report to include a statement that the financial statements are not in conformity with the applicable financial reporting framework. (Ref: par. A31)

### **Information Presented for Supplementary Analysis Purposes That Accompanies Financial Statements and the Accountant's Compilation Report Thereon**

28. When information presented for supplementary analysis accompanies financial statements and the accountant's compilation report thereon, the accountant should include an additional paragraph in the accountant's compilation report on the financial statements to clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information. (Ref: par. A33)
29. When the accountant has performed a compilation engagement with respect to both the financial statements and the information presented for supplementary analysis purposes, the accountant should report on 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 information presented for supplementary analysis purposes. The separate paragraph in the accountant's compilation report on the financial statements or the separate report on the information presented for supplementary analysis purposes should state that (Ref: par. A34–A35)

- a. the information is presented for purposes of additional analysis and is not a required part of the financial statements and
- b. the accountant performed a compilation engagement in accordance with SSARSs promulgated by the AICPA on information that is the representation of management, and the accountant has not audited or reviewed the information and, accordingly, does not express an opinion, a conclusion, nor any form of assurance on such information.

### **Required Supplementary Information**

- 30.** In regards to the requirement in paragraph 28, with respect to required supplementary information, the separate paragraph in the accountant's compilation report should include language to explain the following circumstances, as applicable: (Ref: par. A36)
- a. The required supplementary information is included, and the accountant performed a compilation engagement on the required supplementary information.
  - b. The required supplementary information is included, and the accountant did not perform a compilation, review, or audit on the required supplementary information.
  - c. The required supplementary information is omitted.
  - d. Some required supplementary information is missing, and some is presented in accordance with the prescribed guidelines. (Ref: par. A37)
  - e. The accountant has identified departures from the prescribed guidelines.
  - f. The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.
- 31.** If the entity has presented all or some of the required supplementary information and the accountant did not perform a compilation engagement on the required supplementary information, the separate paragraph in the accountant's compilation report referred to in paragraph 28 should include the following elements: (Ref: par. A38)
- a. A statement that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] requires that the [*identify the required supplementary information*] be presented to supplement the basic financial statements
  - b. A statement that such information, although not a part of the basic financial statements, is required by [*identify designated accounting standard-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
  - c. A statement that the accountant did not perform a compilation, review, or audit on the required supplementary information and, accordingly, does not express an opinion, a conclusion, or provide any assurance on the information
  - d. If some of the required supplementary information is omitted
    - i. a statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting*

*framework (for example, accounting principles generally accepted in the United States of America)]* require to be presented to supplement the basic financial statements

- ii. a statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standard-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
  - e. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]
  - f. If the accountant has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that the accountant has doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [*identify designated accounting standard-setter*]
- 32.** If all the required supplementary information is omitted, the separate paragraph in the accountant's compilation report should include the following elements:
- a. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* require to be presented to supplement the basic financial statements
  - b. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standard-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

### **Documentation in a Compilation Engagement**

- 33.** The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following:
- a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs 6–7
  - b. A copy of the financial statements
  - c. A copy of the accountant's report
- 34.** If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for

the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.

## **Application and Other Explanatory Material**

### **Scope** (Ref: par. 1)

- A1.** Other historical or prospective financial information that may be the subject of a compilation engagement include the following:
- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
  - Supplementary information
  - Required supplementary information
  - Pro forma financial information
  - Prospective financial information, including budgets, forecasts, or projections

### **Engagement Acceptance** (Ref: par. 6)

- A2.** An engagement letter is the most common, and usually the most convenient, method for documenting the understanding with management regarding the services to be performed for compilation engagements. A formal contract is another suitable form of written agreement. A verbal understanding with management is insufficient to meet the requirement in paragraph 6.
- A3.** Both management and the accountant have an interest in documenting the terms of the compilation engagement before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or perform certain functions, including those that are management's responsibility.
- A4.** Management's decision about the financial reporting framework that it adopts for the financial statements is made in the context of the intended use of the financial statements and the requirements of any applicable law or regulation.
- A5.** In accordance with this proposed SSARS, the accountant is required to obtain the agreement of management on management's responsibilities in relation to both the financial statements and the compilation engagement as a condition precedent to accepting the engagement. In smaller entities, management may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management's agreement on an informed basis, the accountant may find it necessary to discuss those responsibilities with management in advance of seeking management's agreement on its responsibilities.

- A6.** The accountant is entitled to rely on management to provide all relevant information for the compilation engagement on an accurate, complete, and timely basis. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations, and other information relevant to the preparation of the financial statements in accordance with the applicable financial reporting framework. The information provided may include, for example, information about management assumptions, intentions, or plans underlying development of accounting estimates needed to prepare the financial statements in accordance with the applicable financial reporting framework.
- A7.** In some entities, other parties, such as those charged with governance, may be the appropriate parties to sign the engagement letter or other suitable form of written agreement.
- A8.** An illustrative example of an engagement letter for a compilation engagement is presented in exhibit A, "Illustrative Engagement Letter."

**The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework** (Ref: par. 8)

- A9.** The requirement that the accountant obtain an understanding of the applicable financial reporting framework intended to be used in the preparation of the financial statements, and the significant accounting policies adopted by management, does not prevent the accountant from accepting a compilation engagement for an entity in an industry in which the accountant has no previous experience. The accountant may obtain such understanding, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals who are knowledgeable about the framework or the industry.

**Compilation Procedures** (Ref: par. 10–12, 21, and 26)

- A10.** The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity. However, the accountant may have performed such inquiries or procedures and the results of those inquiries or procedures, knowledge gained from prior engagements, or the financial statements on their face may cause the accountant to become aware that information provided by management is incorrect, incomplete, or otherwise unsatisfactory.
- A11.** The financial statements may adequately refer to or describe the applicable financial reporting framework via
- the financial statement titles or
  - the notes to the financial statements.
- A12.** 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, as appropriate, suggest a more appropriate presentation in accordance with the applicable financial reporting framework or appropriate disclosures concerning the entity's ability to continue as a going concern, in order to be in compliance with that framework and avoid the financial statements being misleading.

- A13.** Disclosure of items, such as an uncertainty, is not required in financial statements in which substantially all the disclosures required by the applicable financial reporting framework are omitted.
- A14.** In circumstances addressed by the requirements of this proposed SSARS in which withdrawal from the engagement is necessary, the responsibility to inform management of the reasons for withdrawing provides an opportunity to explain the accountant's ethical obligations.
- A15.** When making a determination about whether and how to withdraw from an engagement, the accountant may wish to consult with legal counsel.

#### **The Accountant's Compilation Report (Ref: par. 13)**

- A16.** The accountant may issue a compilation report on financial statements that the accountant prepared even if not so engaged. The accountant may determine, for example, that a report would reduce the likelihood that a user of the financial statements may inappropriately infer an unintended level of reliance on the financial information.
- A17.** The accountant's written report may become unattached from the financial statements. To minimize the possibility that a user of the financial statements may infer an unintended level of reliance on the financial statements, the accountant may request that management include a reference on each page of the financial statements to the accountant's written report. An example of a reference to the accountant's written report included on each page of the financial statements is –See Accountant's Report” or –See Accountant's Compilation Report.”
- A18.** The signature of the accountant or the accountant's firm may be manual, printed, or digital, as appropriate.
- A19.** The city and state where the accountant practices may be indicated on letterhead that contains the issuing office's city and state.
- A20.** Illustrative examples of accountant's compilation reports are presented in exhibit B, "Illustrative Examples of the Accountant's Compilation Reports on Financial Statements."

**Accountant’s Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework (Ref: par. 6, 14, and 16)**

- A21.** The description of the special purpose framework may be included in the financial statement titles, in the notes to the financial statements, or otherwise on the face of the financial statements. Although terms such as *balance sheet*, *statement of financial position*, *statement of income*, *statement of operations*, and *statement of cash flows*, or similar unmodified titles, are generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP, such titles, with appropriate modification, may be used in connection with financial statements prepared in accordance with a special purpose framework. Suitable financial statement titles for financial statements prepared in accordance with a special purpose framework include, but are not limited to
- a modified cash basis financial statement that might be titled
    - ~~Income Statement—Modified Cash Basis.~~”
    - ~~Statement of Cash Receipts and Disbursements.~~”
  - financial statements prepared in accordance with the tax basis of accounting that might be titled
    - ~~Balance Sheet—Tax Basis,~~”
    - ~~Statement of Assets, Liabilities, and Equity—Tax Basis,~~”
    - ~~Statement of Operations—Tax Basis,~~” or
    - ~~Statement of Revenue and Expenses—Tax Basis.~~”
  - a financial statement prepared in accordance with a regulatory basis of accounting that might be titled ~~Statement of Income—Regulatory Basis.~~”
- A22.** Financial statements prepared in accordance with a special purpose framework need not include a summary of significant accounting policies or a description about how the special purpose framework differs from GAAP if such financial statements omit substantially all disclosures, and the omission of substantially all disclosures is not, to the accountant’s knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.
- A23.** The description of how the special purpose framework differs from GAAP ordinarily only includes the material differences between GAAP and the special purpose framework. For example, if several items are accounted for differently in accordance with the special purpose framework than they would be in accordance with GAAP, but only the differences in how depreciation is calculated are material, a brief description of the depreciation differences is all that would be necessary, and the remaining differences need not be described or quantified.
- A24.** Financial statements prepared when applying a special purpose framework are not considered appropriate in form unless the financial statements include informative disclosures similar to those required by GAAP if the financial statements contain items

that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.

- A25.** When the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, the accountant is required by paragraph 16 to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid misunderstandings when the financial statements are used for purposes other than those for which they were intended. The note to the financial statements may also describe any significant interpretations of the contract on which the financial statements are based.

**Reporting When the Accountant Is Not Independent** (Ref: par. 18)

- A26.** An example of a disclosure that an accountant may make to indicate the accountant's lack of independence would be

I am (We are) not independent with respect to XYZ Company.

- A27.** The accountant is not precluded from disclosing a description about the reason(s) that the accountant's independence is impaired. The following are examples of descriptions the accountant may use:

- a. I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company.
- b. I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company.
- c. I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (we) performed certain accounting services (the accountant may include a specific description of those services) that impaired my (our) independence.

- A28.** Illustrative examples of accountant's compilation reports when the accountant's independence has been impaired are presented in exhibit B.

**Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework** (Ref: par. 21)

- A29.** When management elects to include disclosures about only a few matters in the notes to the financial statements, such disclosures may be labeled *–Selected Information—Substantially All Disclosures Required by [the applicable financial reporting framework] Are Not Included.*”

- A30.** An illustrative example of an accountant’s compilation report on financial statements that omit substantially all disclosures required by the applicable financial reporting framework is presented in illustration 3 to exhibit B.

**Reporting Known Departures From the Applicable Financial Reporting Framework** (Ref: par. 24 and 26)

- A31.** The accountant is precluded from including a statement that the financial statements are not in conformity with the applicable financial reporting framework because such a statement would be tantamount to expressing an adverse opinion on the financial statements as a whole. Such an opinion can be expressed only in the context of an audit engagement.
- A32.** An illustrative example of an accountant’s compilation report on financial statements that contain known departures from the applicable financial reporting framework that are not disclosed in the notes to the financial statements is presented in illustration 6 to exhibit B.

**Information Presented for Supplementary Analysis Purposes That Accompanies Financial Statements and the Accountant’s Compilation Report Thereon** (Ref: par. 28–31)

- A33.** Although not required to perform a compilation engagement on information presented for supplementary analysis purposes that accompany financial statements and the accountant’s compilation report thereon, nothing precludes the accountant from performing a compilation engagement on such information if engaged to do so.
- A34.** The following is an example of how an accountant may word a separate paragraph in the accountant’s compilation report addressing information presented for supplementary analysis purposes when the accountant has performed a compilation engagement on both the financial statements and the information presented for supplementary analysis:

***Other Matter***

The [*identify the information presented for supplementary analysis purposes*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. I (We) have performed a compilation engagement on the information. I (We) have not audited or reviewed the information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on such information.

The following is an example of how an accountant may word a separate paragraph in the accountant’s compilation report addressing information presented for supplementary analysis when the accountant has performed a compilation engagement on the financial statements but has not performed a compilation, review, or audit on the information presented for supplementary analysis purposes:

***Other Matter***

The [*identify the information presented for supplementary analysis purposes*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. I (We) have not audited or reviewed the information and, accordingly, I (we) do not express an opinion, a conclusion, nor provide any assurance on it.

- A35.** Information presented for supplementary analysis purposes may become unattached from the accountant's compilation report. To minimize the possibility that a user of the information may infer, through the accountant's association with the information, an unintended level of reliance on the information, the accountant may request that management include a reference to the accountant's compilation report on each page of the information. An example of a reference to the accountant's compilation report included on each page of the information presented for supplementary analysis is "See Accountant's Report" or "See Accountant's Compilation Report."

### **Required Supplementary Information**

- A36.** Examples of required supplementary information that may accompany financial statements and the accountant's compilation report thereon include the following:
- With respect to common interest realty associations, estimates of current or future costs of major repairs and replacements of common property that will be required in the future as required by Financial Accounting Standards Board *Accounting Standards Codification* 972-235-50-3
  - Management's discussion and analysis and budgetary comparison statements as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
- A37.** Prescribed guidelines are the authoritative guidelines established by the designated accounting standard-setter for the methods of measurement and presentation of the required supplementary information.
- A38.** Because the required supplementary information accompanies the basic financial statements, the accountant's compilation report on the financial statements includes a discussion of the responsibility taken by the accountant on that information. However, if the required supplementary information is omitted by the entity, the accountant does not have a responsibility to present that information.

A39.

**Exhibit A—Illustrative Engagement Letters** (Ref: par. A7)

**Illustration 1**—An Engagement Letter for An Engagement to Prepare Financial Statements in Accordance With Accounting Principles Generally Accepted in the United States of America and to Perform a Compilation Engagement With Respect to Those Financial Statements

**Illustration 2**—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

**Illustration 3**—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With the Tax Basis of Accounting

The illustrative engagement letters in this exhibit are not authoritative but are intended as illustrations that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances, and the illustrations are drafted to refer to a compilation engagement and an engagement to prepare financial statements, if applicable, for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

**Illustration 1—An Engagement Letter for an Engagement to Prepare Financial Statements in Accordance With Accounting Principles Generally Accepted in the United States of America and to Perform a Compilation Engagement With Respect to Those Financial Statements**

To the appropriate representative of management of ABC Company:<sup>1</sup>

You<sup>2</sup> have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements,<sup>3</sup> and perform a compilation engagement with respect to those financial statements.<sup>4</sup> We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

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<sup>1</sup> The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the compilation engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A7.

<sup>2</sup> Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

<sup>3</sup> If the accountant is to be engaged to prepare financial statements that omit the statement of cash flows and the related notes and perform a compilation engagement with respect to those financial statements, the sentence may be revised to read, “You have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity, and perform a compilation engagement with respect to those financial statements.” The following additional sentence may then be added: “These financial statements will not include a statement of cash flows and related notes to the financial statements.”

<sup>4</sup> The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping services.

## **Our Responsibilities**

The objective of our engagement is to

- a.* prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and
- b.* apply accounting and financial reporting expertise to assist you in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to and will not verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion, nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

## **Your Responsibilities**

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and to assist you in the presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

- a.* The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America
- b.* The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- c.* The prevention and detection of fraud
- d.* To ensure that the entity complies with the laws and regulations applicable to its activities
- e.* To make all financial records and related information available to us
- f.* The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

## **Our Report**

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

**Other relevant information**

Our fees for these services . . . .

*[The accountant may include language, such as the following, regarding limitation of or other arrangements regarding the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):*

*You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us.]*

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a compilation engagement with respect to those same financial statements, and our respective responsibilities.

Sincerely yours,

\_\_\_\_\_  
[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

\_\_\_\_\_  
[Signed]  
[Name and title]

\_\_\_\_\_  
[Date]

**Illustration 2—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America**

To the appropriate representative of management of ABC Company:<sup>1</sup>  
You<sup>2</sup> have requested that we perform a compilation engagement with respect to the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and

\_\_\_\_\_  
<sup>1</sup> The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the compilation engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A7.

the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.<sup>3, 4</sup> We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

### **Our Responsibilities**

The objective of our compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We will conduct our compilation engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the compilation engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion, a conclusion, nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

### **Your Responsibilities**

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to assist you in the presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the compilation engagement in accordance with SSARSs:

- a. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America
- b. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- c. The prevention and detection of fraud

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<sup>2</sup> Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

<sup>3</sup> If the accountant is to be engaged to perform a compilation engagement with respect to financial statements that omit the statement of cash flows and the related notes, the sentence may be revised to read, "You have requested that we perform a compilation engagement with respect to the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity." The following additional sentence may then be added: "These financial statements will not include a statement of cash flows and related notes to the financial statements."

<sup>4</sup> The accountant may include nonattest services to be performed as part of the engagement such as income tax preparation and bookkeeping service.

- d. To ensure that the entity complies with the laws and regulations applicable to its activities
- e. To make all financial records and related information available to us
- f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the compilation engagement

### **Our Report**

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

### **Other Relevant Information**

Our fees for these services . . . .

*[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):*

*You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorneys' fees, resulting from management's knowing misrepresentations to us.]*

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to perform a compilation engagement with respect to the financial statements described herein and our respective responsibilities.

Sincerely yours,

\_\_\_\_\_  
*[Signature of accountant or accountant's firm]*

Acknowledged and agreed on behalf of ABC Company by:

\_\_\_\_\_  
*[Signed]*  
*[Name and title]*

\_\_\_\_\_  
*[Date]*

### **Illustration 3—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With the Tax Basis of Accounting**

To the appropriate representative of management of ABC Company:<sup>1</sup>

You<sup>2</sup> have requested that we perform a compilation engagement with respect to the financial statements of ABC Company, which comprise the statement of assets, liabilities, and equity—tax basis as of December 31, 20XX, and the related statements of operations and retained earnings—tax basis, and cash flows—tax basis for the year then ended, and the related notes to the financial statements.<sup>3,4</sup> We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

### **Our Responsibilities**

The objective of our compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the tax basis of accounting. We will conduct our compilation engagement in accordance with Statements on Standards for Accounting and Review Services (SSARs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA’s Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the compilation engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion, a conclusion, nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

### **Your Responsibilities**

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to assist you in the presentation of the financial statements in accordance with the tax basis of accounting. You have the following overall responsibilities that are fundamental to our undertaking the compilation engagement in accordance with SSARs:

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<sup>1</sup> The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the compilation engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A7.

<sup>2</sup> Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

<sup>3</sup> If the accountant is to be engaged to perform a compilation engagement with respect to financial statements that omit the statement of cash flows—tax basis and the related notes, the sentence may be revised to read, “You have requested that we perform a compilation engagement with respect to the financial statements of ABC Company, which comprise the statement of assets, liabilities, and equity—tax basis as of December 31, 20XX, and the related statement of operations and retained earnings—tax basis.” The following additional sentence may then be added: “These financial statements will not include a statement of cash flows—tax basis and related notes to the financial statements.”

<sup>4</sup> The accountant may include nonattest services to be performed as part of the engagement such as income tax preparation and bookkeeping services.

- a. The preparation and fair presentation of financial statements in accordance with the tax basis of accounting
- b. The inclusion of all informative disclosures that is appropriate for the tax basis of accounting. This includes
  - i. a description of the tax basis of accounting, including a summary of significant accounting policies, and how the tax basis of accounting differs from accounting principles generally accepted in the United States of America, the effects of which need not be quantified and
  - ii. informative disclosures similar to those required by accounting principles generally accepted in the United States of America.<sup>5</sup>
- c. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- d. The prevention and detection of fraud
- e. To ensure that the entity complies with the laws and regulations applicable to its activities
- f. To make all financial records and related information available to us
- g. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the compilation engagement

## **Our Report**

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

## **Other Relevant Information**

Our fees for these services . . . .

*[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):*

*You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorneys' fees, resulting from management's knowing misrepresentations to us.]*

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to perform a compilation engagement with respect to the financial statements described herein and our respective responsibilities.

Sincerely yours,

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<sup>5</sup> The responsibility described in (b)(ii) need not be included if the financial statements omit substantially all disclosures required by the financial reporting framework.

*[Signature of accountant or accountant's firm]*

Acknowledged and agreed on behalf of ABC Company by:

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*[Signed]*

*[Name and title]*

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*[Date]*

A40.

**Exhibit B—Illustrative Examples of the Accountant’s Compilation Reports on Financial Statements** (Ref: par. A19, A29, and A30)

**Illustration 1**—An Accountant’s Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

**Illustration 2**—An Accountant’s Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA’s Financial Reporting Framework for Small- and Medium-Sized Entities

**Illustration 3**—An Accountant’s Compilation Report on Comparative Financial Statements Prepared in Accordance With the Tax Basis of Accounting, and Management Has Elected to Omit Substantially All Disclosures Ordinarily Included in Financial Statements Prepared in Accordance With the Tax Basis of Accounting

**Illustration 4**—An Accountant’s Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant’s Independence Is Impaired, and the Accountant Determines to Not Disclose the Reasons for the Independence Impairment

**Illustration 5**—An Accountant’s Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA’s Financial Reporting Framework for Small- and Medium-Sized Entities When the Accountant’s Independence Has Been Impaired Due to the Accountant Having a Financial Interest in the Entity, and the Accountant Decides to Disclose the Reason for the Independence Impairment

**Illustration 6**—An Accountant’s Compilation Report on Comparative Financial Statements, and The Accountant Is Aware of Departures From Accounting Principles Generally Accepted in the United States of America

**Illustration 1—An Accountant’s Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America**

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with accounting principles generally accepted in the United States of America. I (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. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

*[Signature of accounting firm or accountant, as appropriate]*

*[Accountant's city and state]*

*[Date of the accountant's report]*

**Illustration 2—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities**

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities. I (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. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

I (we) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

*[Signature of accounting firm or accountant, as appropriate]*

*[Accountant's city and state]*

*[Date of the accountant's report]*

**Illustration 3—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the Tax Basis of Accounting, and Management Has Elected to Omit Substantially All Disclosures Ordinarily Included in Financial Statements Prepared in Accordance With the Tax Basis of Accounting**

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with the tax basis of accounting. I (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. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The financial statements are prepared in accordance with the tax basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Management has elected to omit substantially all the disclosures ordinarily included in financial statements prepared in accordance with the tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

*[Signature of accounting firm or accountant, as appropriate]*

*[Accountant's city and state]*

*[Date of the accountant's report]*

**Illustration 4—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant's Independence Has Been Impaired, and the Accountant Determines to Not Disclose the Reasons for the Independence Impairment**

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with accounting principles generally accepted in the United States of America. I (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. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

I am (we are) not independent with respect to XYZ Company.

*[Signature of accounting firm or accountant, as appropriate]*

*[Accountant's city and state]*

*[Date of the accountant's report]*

**Illustration 5—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities When the Accountant's Independence Has Been Impaired Due to the Accountant Having a Financial Interest in the Entity, and the Accountant Decides to Disclose the Reason for the Independence Impairment**

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities. I (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. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by

management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

I (we) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

I am (we are) not independent with respect to XYZ Company as during the year ended December 31, 20X2, I (a member of the engagement team) had a direct financial interest in XYZ Company.

*[Signature of accounting firm or accountant, as appropriate]*

*[Accountant's city and state]*

*[Date of the accountant's report]*

**Illustration 6—An Accountant's Compilation Report on Comparative Financial Statements, and the Accountant Is Aware of Departures From Accounting Principles Generally Accepted in the United States of America**

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1. I (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. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Accounting principles generally accepted in the United States of America require that land be stated at cost. Management has informed me (us) that XYZ Company has stated its land at appraised value and that if accounting principles generally accepted in the United States of America had been followed, the land account and stockholders' equity would have been decreased by \$500,000.

*[Signature of accounting firm or accountant, as appropriate]*

*[Accountant's city and state]*

*[Date of the accountant's report]*

# **Proposed Statement on Standards for Accounting and Review Services *Association With Financial Statements***

## **Introduction**

### **Scope**

1. This proposed Statement on Standards for Accounting and Review Services (SSARS) addresses the accountant's responsibility when the accountant is associated with financial statements, and the accountant has not issued an audit, review, or compilation report on those financial statements. (Ref: par. A1)
2. The accountant's association with financial statements on which the accountant has been engaged to perform a compilation, review, or audit engagement is addressed in SSARSs and Statements on Auditing Standards, respectively.

### **Effective Date**

3. This proposed SSARS is effective for financial statements with which the accountant is associated on or after December 15, 2015. Early implementation is permitted.

### **Objective**

4. The accountant's objective is to prevent misinterpretation regarding the degree of responsibility the accountant assumes when an accountant is associated with financial statements, and the accountant has not issued an audit, review, or compilation report on those financial statements.

### **Definition**

5. For purposes of SSARSs, the following term has the meaning attributed as follows:

**Association with financial statements.** An accountant is associated with financial statements when the accountant permits the use of the accountant's name in a report, document, or written communication containing financial statements. (Ref: par. A2)

### **Requirements**

#### **Association With Financial Statements**

6. Prior to permitting the use of the accountant's name in a report, document, or written communication containing financial statements on which the accountant has not issued an audit, review, or compilation report, the accountant should read the financial statements for obvious material misstatements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management.

7. If, in the course of reading the financial statements in accordance with paragraph 6, the accountant becomes aware of obvious material misstatements in the financial statements, the accountant should request that management revise the financial statements, as appropriate.
8. If management does not revise the financial statements, as appropriate, the accountant should not permit the use of the accountant's name. (Ref: par. A3)
9. If the accountant permits the use of the accountant's name in a report, document, or written communication containing financial statements, the accountant should
  - a. determine that the financial statements are marked to indicate that no CPA provides any assurance on the financial statements (Ref: par. A4) or
  - b. issue a disclaimer on the financial statements. (Ref: par. A5)

## **Application and Other Explanatory Material**

### **Scope** (Ref: par. 1)

- A1. This proposed SSARS does not apply to data, such as tax returns, prepared solely for submission to taxing authorities.

### **Association With Financial Statements** (Ref: par. 8–9)

- A2. In situations when the accountant's name has been used without the accountant's permission, the accountant may
  - a. advise the entity that the use of the accountant's name has not been permitted, and
  - b. consult with the accountant's legal counsel.
- A3. An example of an adequate notation that may be used is as follows:

No CPA expresses an opinion, a conclusion, nor provides any assurance on these financial statements.

- A4. An example of a disclaimer that the accountant may use is as follows:

The accompanying financial statements of XYZ Company as of, and for the year ended, December 31, 20XX, were not audited or reviewed by me (us) and, accordingly, I (we) do not express an opinion, a conclusion, nor provide any assurance on them.

## **AICPA Accounting and Review Services Committee (ARSC) Exposure Drafts issued for public comments On October 23, 2013.**

On October 23, 2013, the AICPA Accounting and Review Services Committee (ARSC) issued three Proposed Statements on Standards for Accounting and Review Services (SSARS) Exposure Drafts for public comments by May 2, 2014:

**1) Preparation of Financial Statements:** - A new preparation standard that would provide requirements and guidance when an accountant is engaged to prepare financial statements for an entity but has **not** been engaged to perform a compilation, review, or audit with respect to those financial statements. *This Proposed SSARS would be effective for the Preparation of Financials Statements for period ending on or after December 15, 2015. Early implementation is permitted.*

**2) Compilation Engagements** - A revised compilation standard that would provide requirements and guidance that would apply only when an accountant is engaged to perform a compilation on historical financial statements. *This Proposed SSARS would be effective for the Compilation Reports for period ending on or after December 15, 2015. Early implementation is permitted.*

**3) Association With Financial Statements** - A new association standard that would provide requirements and guidance when an accountant agrees to permit the use of the accountant's name in a report, document, or written communication that also includes financial statements with respect to which the accountant did not issue a compilation, review, or audit report. The accountant may or may not have prepared the financial statements. *This Proposed SSARS would be effective for Financial Statements with which the accountant is associated on or after December 15, 2015. Early implementation is permitted.*

The entire proposals are available at [tinyurl.com/0794byc](http://tinyurl.com/0794byc).

### **Current SSARS Standard:**

The current pronouncement under SSARS 19 AR 80.01 states "This section establishes standards and provides guidance on compilations of financial statements. The accountant is required to comply with the provisions of this section whenever he or she is engaged to report on compiled financial statements or submits financial statements to a client or to third parties".

## Submission of Financial Statements:

Current SSARS standards require the accountant to comply with the provisions of AR section 80, *Compilation of Financial Statements*, whenever the accountant is engaged to report on compiled financial statements or *submits* (defined in paragraph .04 of AR section 60 as —presenting to management financial statements that the accountant has prepared) financial statements to a client or third parties.

SSARS urgency for the revision to the “*submission standards*” is primarily as a result of the AICPA Professional Ethics Executive Committee’s revised Interpretation No. 101-3, —Nonattest Services (Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par .05). Among the revisions is a clarification that *financial statement preparation* is not considered an attest engagement. ARSC welcomes this clarification since it is consistent with the 2011 edition of *Government Auditing Standards* (the Yellow Book) treatment of the *preparation of financial statements*.

The clarification appears to be consistent with the views of practitioners who believe that the *preparation of financial statements* is the responsibility of management. The AICPA clarification is effective for engagements covering periods beginning on or after December 15, 2014.

The greatest impact of the proposed revisions to the compilation standard for the practitioner would be the elimination of answering the difficult question “preparation and presentation” of the financial statement.

Example: An accountant performs bookkeeping services for a client. The accountant has access to the client’s online data and makes a few adjusting journal entries to record accruals, payroll tax payments, sales tax payments, and depreciation expenses. The company’s internal bookkeeper posts all other daily transactions. At the end of each month, the owner prints out a copy of the financial statements. Did the accountant prepare those financial statements? Did the bookkeeper? Or was it generated by the software itself?

The proposed revised compilation and preparation under SSARS would create a distinct separation between accounting (**preparation**) and reporting (**compilation**) services (Exhibit1). The accountant would no longer have to be concerned whether the financial statements are to be used internally by knowledgeable parties (pursuant to SSARS 8) or by third parties.

The accountant would follow the compilation standard when engaged; the accountant would always be required to issue a compilation report. However, to differentiate the nonassurance compilation report from assurance (review and audit) reports, ARSC has proposed to streamline the report so that the standard report is just one paragraph with no headings. The proposed standard would retain the existing requirement that the accountant modify the compilation report whenever his or her independence is impaired. The accountant would be required to obtain an engagement letter signed by the accountant and the client’s management. The proposed standard can be applied to financial statements with or without disclosures.

The proposed preparation standard would apply when the accountant is engaged to prepare financial statements but is not engaged to perform an audit, review, or compilation on those financial statements. A report would not be required even when the financial statements are expected to be used by or presented to a third party. Instead, the accountant would be required to include a legend on each page of the financial statements stating that no assurance is being provided.

The proposed SSARS would require that the accountant obtain an engagement letter signed by both the accountant and the client's management. Such as all other Nonattest engagements (bookkeeping/accounting), the accountant would not be required to consider whether he or she is independent. The proposed standard can be applied to financial statements with or without disclosures.

The proposed association standard is essentially the same as AU Section 504, Association with Financial Statements. The requirements and guidance with respect to association with unaudited financial statements is being moved to the SSARS so that the auditing literature deals only with audit matters. The proposed standard applies when the accountant permits the use of his or her name in a report, document, or written communication containing financial statements on which the accountant has not issued an audit, review, or compilation report. In those cases, the accountant would be required to read the financial statements to see if there are any obvious material misstatements.

The consideration for the CBA would be if the newly proposed SSARS engagements **Preparation of Financial Statements & Association with Financial Statements** will be subject to PEER Review Regulations.

**EXHIBIT 1: The following table compares and contrasts attributes of the proposed SSARSs *Preparation of Financial Statements* and *Compilation of Financial Statements*:**

	<b>Compilation</b>	<b>Preparation</b>
<b>When does the standard apply?</b>	When an accountant is engaged to perform a compilation	When an accountant is engaged to prepare financial statements
<b>Is an engagement letter required? **</b>	Yes	Yes
<b>Is the accountant required to determine if he or she is independent of the client?</b>	Yes	No
<b>If the accountant is not independent, is that fact required to be disclosed?</b>	Yes	N/A
<b>Does the engagement require a report?</b>	Yes	No*
<b>May the financial statements go to users outside of management?</b>	Yes	Yes
<b>May the financial statements omit notes?</b>	Yes	Yes

\*When an accountant is engaged to prepare financial statements, the accountant is required to include an adequate statement on each page of the financial statements indicating that no CPA provides any assurance on the financial statements. If the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer on the financial statements.

\*\*The accountant may obtain one engagement letter that covers all services performed.

# **Discussion Regarding the AICPA Peer Review Recall Process Relating to Firms that Perform Annual Audits of the Employee Retirement Income Security Act (ERISA)**

- Memo, dated July 11, 2014, with the following attachment:
  - AICPA Peer Review Board Open Session Materials, May 28, 2014 Conference Call.



**DEPARTMENT OF CONSUMER AFFAIRS**  
CALIFORNIA BOARD OF ACCOUNTANCY  
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**PROC Item VI.A.**

May 2, 2014

**Discussion Regarding the AICPA Peer Review Recall Process**  
**Relating to Firms that Perform Annual Audits**  
**of the Employee Retirement Income Security Act (ERISA)**

**Presented by:** Rafael Ixta, Chief of Enforcement

**Date:** July 11, 2014

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**Purpose of the Item**

The purpose of this agenda item is to provide the Peer Review Oversight Committee (PROC) members with information regarding revisions to the American Institute of Certified Public Accountants (AICPA) Approved Peer Review Recall Guidance.

**Action(s) Needed**

PROC members are requested to review the AICPA Peer Review Board Open Session Materials (**Attachment**) from the May 28, 2014 Conference Call.

**Background**

In 2013, the U.S. Department of Labor provided the AICPA with a list of approximately 5,000 accountancy firms that performed Employee Retirement Income Security Act (ERISA) audits for the year ending December 31, 2011. AICPA asked administering entities (AE), including the California Society of Certified Public Accountants (CalCPA), to research certain firms to determine if the firm performed ERISA audits during their peer review year, but did not notify the AE or their reviewer of such audits.

At the May 2, 2014 PROC meeting, members discussed an issue paper prepared by Linda McCrone, Director Technical Services, CalCPA. The document explained the issue and provided specific information about California-licensed firms identified during AICPA's matching process.

On May 28, 2014, the AICPA Peer Review Board met in open session to approve revisions to the Approved Peer Review Recall Guidance. Significant changes to the guidelines are as follows:

- If the firm's peer review report is not correct in all material respects, the AE must recall the peer review acceptance letter. There is no need for deliberation by the peer review committee. The firm is required to have a replacement review due within 90 days.

- In addition to notifying the state board of accountancy (SBOA) when a peer review acceptance letter is recalled, the AE should notify the applicable SBOAs when a replacement review is accepted. The AE is not allowed to specifically indicate that the peer review has been recalled nor indicate that a replacement review is being performed.
- The reviewer for the replacement review (System Review) must evaluate the systemic cause of the error or, at a minimum; the reviewer must prepare a Matter for Further Consideration form to allow the firm to respond. Further evaluation of the systemic cause could lead to a Finding for Further Consideration or deficiency in the report.

### **Comments**

In July 2014, the CalCPA provided the CBA with the following information for ten California licensed firms:

This is to inform you that Facilitated State Board Access (FSBA) has been revised to reflect the [firm] most recent peer review was accepted on [previous date] for the peer review year ended [date]. FSBA previously indicated that the firm's most recent peer review was accepted on [recent date] for the year ended [date]. For further information about the peer review of this firm and the reason for the revision to FSBA, please contact the firm.

The CBA will contact the firms identified to gather additional details regarding the revisions to the FSBA.

### **Fiscal/Economic Impact Considerations**

None.

### **Recommendation**

None.

### **Attachment**

AICPA Peer Review Board Open Session Materials, May 28, 2014 Conference Call.

# **Peer Review Board Open Session Materials**

**May 28, 2014**

**Conference Call**

**AICPA Peer Review Board  
Open Session Agenda  
May 28, 2014 11:00 AM – 12:30 PM (Eastern Time)  
WebEx Conference Call**

Date/Time: Tuesday, May 28, 2014 11:00 AM – 12:30 PM (Eastern Time)

1.1 Welcome Attendees and Roll Call\*\*- Mr. Reeder

1.4 Approval of Revisions to the Approved Peer Review Recall Guidance\*- Mr. Reeder

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\*- Document Provided

\*\*-Verbal Discussion

## Revisions to the Approved Peer Review Recall Guidance

### Why is this on the Agenda?

Failure to include consideration of any must select engagement in a peer review is considered a material departure from peer review standards. Peer review staff became aware that firms have failed to inform their peer reviewers and administering entities (AEs) that they performed employee benefit plan (EBP) audits. In 2012, the staff became aware of this issue when they began getting copied on Department of Labor (DOL) referrals sent to Professional Ethics. As a result of these findings, the Peer Review Board (PRB) approved the original peer review recall guidance in August 2012. Since that time, developments have occurred requiring revisions specific to errors and omissions.

In 2013, the DOL sent staff a list of approximately 5,000 firms that performed ERISA audits for year ending December 31, 2011. Staff began researching each firm's prior peer review information. If evidence (copy of publicly available audit report) supported that such an engagement was not properly included in the peer review, prior recall guidance indicated that the peer reviewer and peer review committees should make a determination as to whether the peer review documents should be recalled. Staff became aware that reviewers were not recalling peer review documents. In addition, administering entities (AEs) were not requesting reviewers to recall the peer review report, nor were administering entities recalling acceptance letters themselves.

The decisions made by reviewers and the administering entities to resolve the issues did not meet the expectations of the PRB. In addition, staff also became aware that the guidance may not have been sufficiently clear that AEs should notify the state boards of accountancy (SBOAs) when peer review documents were recalled. The revised recall guidance better reflects the PRB's intent for recall situations.

This recall guidance addresses situations where there is evidence that errors or omissions directly result in a material departure from peer review standards that change the peer review report. Other types of errors or omissions will be handled differently when the impact on the peer review report is not obvious and requires judgment, such as communications of allegations and investigations and other situations that may have impacted the planning, performance, evaluation, reporting or acceptance of the peer review.

### Feedback Received

- On March 25, 2014 a conference call was held with some PRB members to discuss the major points and confirm direction of the proposed recall guidance revisions.
- On March 27, 2014, e-mail communications were sent to the Chief Executive and Deputy Officers of each state society indicating the high-level proposed revisions to the guidance as discussed by the PRB. This communication was also sent to Peer Review Administrators.
- Due to the urgency to address state board notification concerns and ongoing DOL project investigations, the PRB voted to approve revisions to the recall guidance by email ballot on April 25, 2014. During the approval process, several Board members, though voting in favor of the guidance, suggested additional clarifications in some areas, which are included in the attached.

- 
- On April 30, 2014, e-mail communications were sent to Administrators and Chief Executive and Deputy Officers of each state society describing the high-level revisions to the recall guidance approved by the PRB on April 25, 2014. No additional feedback has been received from these parties as a result of those communications.
  - On May 12, 2014 the Standards Task Force (STF) discussed the guidance approved by the PRB on April 25, 2014. The STF raised concerns about the option to not recall the acceptance letter if the reviewer did not recall the peer review report. STF concluded that if a peer report is materially incorrect, the acceptance letter must be recalled. This conclusion does not require any deliberation by the peer review committee or the administering entity. The reviewer should still consider recalling the peer review report. This was discussed during closed session and open session on May 13, 2014. This change is incorporated in this agenda item.
  - The high level overview of the proposed changes discussed on May 13, 2014 were sent via e-mail to state society executives on May 15 and to state board of accountancy representatives (NASBA) on May 20 to allow input prior to the final approval of the guidance. Any subsequent input received will be presented during open session.

### **PRISM/Technology Impact**

The revisions to the recall guidance will not impact PRISM. The recall guidance indicates that when the acceptance letter is recalled, reliance on those documents should discontinue and be removed from public view. For recalled peer review documents, existing technology will allow the peer review documents and peer review information to be removed from the Public File and Facilitated State Board Access (FSBA) by AICPA staff. The public file and FSBA will display the publicly available peer review information allowed by standards paragraph .146 (including date of acceptance and period covered by the firm's most recently accepted peer review, which is generally the peer review prior to the recalled peer review).

### **AE Impact**

- The peer review committee, technical reviewer, and administrator will no longer be involved in the decision about whether to recall peer review documents when there is evidence of a material departure from peer review standards resulting in a change in the peer review report. The acceptance letter must be recalled in these situations. The peer reviewer may decide to recall a peer review report.
- AEs will be responsible for sending communications to all applicable parties timely and in accordance with guidance. These are manual processes and administering entities must develop a system to monitor each situation. This includes timely sending the Notification of Discovery Letter to the firm, reviewer and AICPA staff and also timely notifications to the SBOAs as allowed by the guidance.

### **Communications Plan**

- Peer Review Alert reflecting the revisions to the guidance will be sent as soon as practicable, after final approval by the PRB.
- The guidance will be discussed with administrators and technical reviewers during training calls held after approval.
- This will be included in the Peer Review Update webcast on June 2, 2014.

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### **Manual Production Cycle (estimated)**

Revisions to the paper and CD version of the Report Acceptance Handbook (section 3300) are expected no later than the January 2015 edition to the Peer Review Program Manual. However, the revisions to the guidance will be available in the online version of section 3300 as soon as practicable.

### **Effective Date**

Upon approval by the PRB. However, this revised guidance is not applicable to discoveries of information that were communicated to the administering entity, reviewed firm, or reviewer prior to the approval of this revised guidance. The procedures for those instances should follow the recall guidance that was in effect at the time of the communication.

### **Board Consideration**

Review and approve the changes to the recently approved revised recall guidance in the RAB Handbook (Agenda item 1.4B), the Peer Review Alert (Agenda item 1.4A) and the administrative letter (Notification of Discovery and Resolution letter- Agenda item 1.4C).

Significant changes from the April 25, 2014 approved version of the guidance are as follows:

- If the firm's peer review report is not correct in all material respects, the administering entity must recall the peer review acceptance letter. There is no need for deliberation by the peer review committee. The firm is required to have a replacement review due within 90 days.
- In addition, to notifying the SBOA when a peer review acceptance letter is recalled, the AE should notify the applicable SBOAs when a replacement review is accepted. The AE is not allowed to specifically indicate that the peer review has been recalled nor indicate that a replacement review is being performed. The AE should follow the example provided to communicate information allowed by Standards paragraph .146.
- The reviewer for the replacement review (System Review) must evaluate the systemic cause of the error or. At a minimum, the reviewer must prepare a Matter for Further Consideration (MFC) form to allow the firm to respond. Further evaluation of the systemic cause could lead to a Finding for Further Consideration (FFC) or deficiency in the report.

**Peer Review Alert  
Revisions to Recall Guidance**

In 2012, the Peer Review Board (board) approved guidance for the recall of peer review documents when information is subsequently discovered that may have impacted the planning, performance, evaluation or acceptance of a firm's peer review. Recent developments required revisions to guidance specifically related to omissions and errors.

To address these recent developments about omissions and errors, on April 25, 2014 the board approved revisions to the recall guidance when subsequently discovered evidence indicates that errors or omitted information about a firm's accounting and auditing practice results in a material departure from the standards and requires a change to the peer review report. Further conforming changes were approved by the Board on May 28, 2014.

Summary of major revisions to recently approved recall guidance:

- Explicitly indicates that if the discovery of information about an error or omission does not originate from AICPA peer review staff, staff should be notified and consulted immediately before proceeding with recall considerations.
- Defines a material departure from peer review standards as errors or omissions that result in a change in the type of peer review, period covered or must-select categories (engagements required to be selected by the reviewer as defined in Interpretations 63-1). Such a departure results in a peer review that is not properly performed or reported on in all material respects thus necessitating a significant change in the peer review report.
- Emphasizes that it is the firm's responsibility to notify users relying on the peer review documents to discontinue reliance.
- Indicates that the reviewer should (presumptively mandatory) recall the peer review report if the previously accepted peer review report was not correct in all material respects. If such a report was accepted more than three years and six months prior or a more recent peer review has been accepted, then recall reconsiderations are not necessary.
- Indicates that the administering entity (AE) should communicate the discovery of the information (with evidence) and the resolution of the matter in writing simultaneously to the firm and reviewer (Notification of Discovery and Resolution Letter). The firm should sign and return the letter to the AE within 15 days from the date of the letter.
- Eliminates peer review committee deliberation about recalling the acceptance letter if an engagement that would have required a system review or an engagement in a must-select category was not included in a system review. Recall of the acceptance letter is automatic in these instances. The recall of the acceptance letter invalidates the related peer review report and letter of response, if applicable, because it creates a situation in which the firm's peer review documents are no longer accepted by the administering entity. Therefore the reviewer is not required to recall the peer review report but may do so.
- Indicates that the period to be covered by a replacement review is the firm's and reviewer's decision. Provides clearer examples of resolutions for a replacement review depending on whether the firm continues to perform the previously omitted engagement(s). The firm and reviewer should consult with the administering entity to determine the period to be covered by a replacement review.
- Indicates that the reviewer for the replacement review must evaluate the systemic cause for the error or omission and, at a minimum, prepare a Matter for Further Consideration

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(MFC) form. Further evaluation of the systemic cause could lead to a Finding for Further Consideration (FFC) or deficiency in the report.

- Provides guidance on the method and content of information that may be communicated by the administering entity to state boards of accountancy if peer review documents are recalled.
- Removes the reference to the disagreement guidance related to recall procedures when there is evidence that errors or omitted information about a firm's accounting and auditing practice represents a material departure from the standards of the program resulting in a significant change to the peer review report.

#### Other changes to the guidance

- Removes extraneous and duplicative information.
- Adds a definition of presumptively mandatory ("should") and mandatory provisions ("must") to the guidance overview as a footnote. Departures from provisions require consultation with AICPA staff.

These changes to the recall guidance can be found as Agenda Item 1.4 in the Peer Review Board Open Session Materials for May 28, 2014 and will be included in the next revision of the Peer Review Program Manual. The guidance was effective upon board approval on May 28, 2014. However, this revised guidance is not applicable to discoveries of information that were communicated to the administering entity, reviewed firm, or reviewer prior to the approval of this revised guidance. The procedures for those instances should follow the recall guidance that was in effect at the time of the communication.

## VII. Considerations for the Recall of Peer Review Documents

### Overview

Peer reviewers or reviewing firms (reviewer) and reviewed firms (firm) are responsible for complying with the standards and guidance issued by the AICPA Peer Review Board (board) throughout the entire peer review process. This includes communicating with all appropriate parties involved in the program regarding information that could affect the performance or results of the peer review. Fulfilling all reviewer and firm responsibilities is required as a matter of cooperation with the administering entity, peer review committee (committee), the board, and AICPA staff (staff). After the date of acceptance by the committee, the administering entity (including the administrator, committee, and technical reviewer) or reviewer generally have no obligation or expectation to make any further inquiry or perform any other peer review procedures with respect to the peer review report, acceptance letter, or letter of response, if applicable (referred to hereafter in this section as peer review documents), unless information that may affect an accepted peer review comes to the parties' attention.

This section describes actions that should<sup>1</sup> be considered by the reviewer, committee, or staff who, subsequent to the date of peer review acceptance, becomes aware of facts that existed as of the date of the peer review report or acceptance that might have affected the performance or acceptance of the peer review had such information been known. Instances for recall consideration include, but are not limited to, situations in which there were errors or omissions or when the reviewer was not qualified or eligible to perform the peer review.

When peer review documents are being considered for recall, staff should be notified and consulted early in the process. ***For discoveries of information not covered by this guidance or discoveries that do not originate from staff, staff should be notified before proceeding with any recall considerations.*** During recall considerations all parties involved in the peer review process should continue to adhere to the confidentiality guidelines in paragraph .20 of the standards.

Generally, recall considerations should not be made for fee disputes, disagreements that occur after acceptance by the report acceptance body, or other situations that did not have a direct impact on the underlying peer review period, procedures performed, or peer review documents. Additionally, the reviewer, firm, or committee should not consider recalling

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<sup>1</sup> This section uses the term *should* to indicate a presumptively mandatory requirement in all cases in which such a requirement is relevant. However, in rare circumstances, the reviewer, firm, or committee may depart from a presumptively mandatory requirement, provided there is consultation with and concurrence by staff and the parties document the justification for the departure and how the alternative decisions or actions in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. Use of the term *must* in this section indicates an unconditional requirement in all cases in which such a requirement is relevant.

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peer review documents if a subsequent peer review report has been accepted, for situations outside of the scope of peer review, or situations not addressed within the standards of the program.

Before making any recall decisions, the facts of the situation must be confirmed. The recall considerations should be documented and retained until the firm's subsequent peer review has been completed.

### **Potential Reasons for Recall of Peer Review Documents**

Recalling previously accepted peer review documents should be considered in instances including, but not limited to, the following situations.

#### *Errors or Omissions*

Errors or omissions that may have caused a significant change in the planning, performance, evaluation of results, peer review documents, or acceptance of the review are as follows:

- Material Departures Directly Impacting the Peer Review Report: *(See section A)*
  - The firm had an engagement review and failed to inform the administering entity or reviewer that the firm performed an engagement for the period covered by the peer review that would have required the firm to undergo a system review had the information been known to the administering entity or reviewer
  - The firm performed an engagement in a must-select category during the period covered by the peer review, and the reviewer did not consider or select a comparable must-select engagement during the system review.
- Other Departures That May Change the Peer Review Report: *(See section B)*
  - The firm had an engagement review and failed to inform the administering entity or reviewer that the firm performed a particular level of service required to be selected in an engagement review, and the reviewer did not consider or select a comparable engagement during the engagement review. For instance, compilations with disclosures were included in the engagement review, but ~~none of the compilations without disclosures~~ performed by the firm were not included—considered in the engagement review.
  - The firm omitted or misrepresented information relating to its accounting and auditing practice, other than instances covered in section A.
  - The firm failed to inform the reviewer of communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported on by the firm or limitations or restrictions on the firm's ability to practice public accounting related to the firm or its personnel within the three years preceding the firm's current peer review year-end and through the date of the exit conference.

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- The firm provided erroneous information in response to inquiries from the administering entity, staff, or reviewer in relation to the peer review.

*Reviewer Disqualifications (See section C)*

- The reviewer or reviewing firm was not qualified (ineligible) to perform or issue the peer review report because certain peer reviewer qualifications were not met at the time of the review and this was not made known to staff or the administering entity during the scheduling, performance, or acceptance of the review.
- The reviewer or reviewing firm failed to inform staff or the administering entity when there were limitations or restrictions on the reviewer or reviewing firm's ability to practice public accounting. Considerations for recalling peer review documents should not be made if there are allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported by the reviewer or reviewing firm that are discovered subsequent to the acceptance of the peer review, but that have not resulted in limitations or restrictions on the reviewer or reviewing firm's ability to practice public accounting.

The preceding examples are not intended to be all-inclusive or indicate when peer review documents should be recalled. The reviewer needs to be aware that reviewer noncompliance could affect his or her ability to perform future reviews, and the firm needs to be aware that firm noncompliance could affect its ability to meet AICPA membership requirements, as well as licensing and other regulatory requirements.

**General Guidance**

When the reviewer or administering entity becomes aware of information that relates to previously accepted peer review documents but was not known to the reviewer, firm, or administering entity as of the date of the peer review report or acceptance thereof, the situation should be documented in writing and provided to the administering entity. The reviewer and committee should consider whether the information may have caused a significant change in the peer review.

After the confirmation of evidence supporting the facts and considerations discussed in the following guidance, if the reviewer determines that the peer review report should be recalled, then both the peer review report and acceptance letter should be recalled.

**Material Departures**

The board considers errors or omissions that result in a change in the peer review report for the type of peer review, period covered, or must-select categories to be material departures from the *AICPA Standards for Performing and Reporting on Peer Reviews*. Such a departure results in a peer review that is not properly performed or reported on in conformity with the standards in all material respects. Generally the reviewer should recall the peer review report if the previously accepted peer review report was not properly performed or reported on in all material respects. If such a report was accepted more than three years and six months prior to discovery of the information or a more recent peer review has been accepted, then recall considerations are ordinarily not necessary. When the

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peer review was not performed or reported on in conformity with the standards in all material respects, there is no need for deliberation by the committee about the recall of the acceptance letter and the guidance in section A should be followed.

~~After the confirmation of evidence supporting the facts and considerations discussed in the following guidance, if the reviewer determines that the peer review report should be recalled, then both the peer review report and acceptance letter should be recalled.~~

### Other Departures

For instances covered in section B, if a reviewer decides not to recall a peer review report, the committee should independently consider whether or not to withdraw acceptance of the peer review report. The committee's reconsideration of peer review acceptance should take into account the reviewer's considerations, but is not fully dependent on the reviewer's recall of the peer review report. The committee's decision to recall an acceptance letter invalidates the related peer review report and letter of response, if applicable, because it creates a situation in which the firm's peer review documents are no longer accepted by the administering entity.

### Replacement Review

When the decision is made to recall peer review documents, the administering entity should notify the firm about the need for a replacement review. A replacement review is another peer review that takes the place of a recalled peer review that addresses the concerns related to the previously omitted engagement(s) or information or reviewer disqualification. The resolutions depend upon the timing of the discovery, because the peer review working paper retention period must be considered, which is 120 days after the peer review is completed. Resolutions for a replacement review further discussed in this guidance include revising the peer review report (~~ordinarily considered~~ only if within 120 days of peer review completion), full reperformance of the peer review of the same period, or performance of a peer review of a subsequent period.

## **A. Considerations Related to ~~Errors or Omissions~~ Material Departures Directly Impacting the Peer Review Report**

### *1. Confirmation of Facts and Evidence*

Awareness of errors or omissions that result in material changes in the peer review report could come from various sources, such as the administering entity, publicly available information, reviewers, staff, or other substantiated and reliable sources. When the reviewer, administering entity, or staff becomes aware of information that relates to previously accepted peer review documents but may not have been known to the reviewer, or administering entity as of the date of the peer review report or acceptance thereof, the situation should be documented in writing and provided to the administering entity. Any parties presenting such information to the administering entity must undertake measures to determine whether the information is reliable and whether the facts existed during the period covered by the peer review or as of the date of the peer review report and provide verifiable evidence to support the facts.

## 2. Communication With the Administering Entity

Once the information and evidence is confirmed as factual and reliable, the administering entity should promptly communicate the discovery and resolutions to the firm and reviewer. The administering entity should document the situation in the Notification of Discovery and Resolution letter from the administering entity, addressed to the firm, and copied to the reviewer and staff. The administering entity should include evidence supporting the discovery, indication that the acceptance letter will be recalled, and due dates requirement for the replacement review, including the due date and guidelines for the resolution in the Notification of Discovery and Resolution letter. The administering entity should obtain confirmation of receipt indicating that both the firm and reviewer received the Notification of Discovery and Resolution letter.

## 3. Reviewer Considerations of Relevance and Impact

By copy of the Notification of Discovery and Resolution letter, the reviewer ~~is requested to respond in writing to the firm and the administering entity within 15 days from the date of the letter about his or her decision to~~ should (presumptively mandatory) recall the previously accepted peer review report. The reviewer should respond in writing to the firm and the administering entity about his or her decision to recall the peer review report. Errors or omissions that directly result in a change in the peer review report for the type of peer review, period covered, or must-select categories are considered to be material departures from the standards of the program for which the reviewer should recall the peer review report. ~~However, by copy of the Notification of Discovery and Resolution letter, the reviewer is advised that the acceptance letter will be recalled by the administering entity, which invalidates the related peer review report. Unless the reviewer positively communicates the decision to~~ recalls the peer review report, the reviewer will not be allowed to revise the peer review report or perform the firm's replacement review. However, if the firm has voluntarily agreed to have a replacement review due within 90 days, it is acceptable<sup>2</sup> for the reviewer to conclude that it is not necessary to recall the firm's peer review report.

## 4. Recall of Peer Review Documents and Resolutions

~~If the reviewer decides to recall the peer review report, t~~ The administering entity must recall its acceptance letter when notified by staff that the peer review report is not correct in all material respects. ~~because such acceptance is not effective without the underlying peer review report. Neither the firm nor the committee has the ability to disagree with the reviewer's decision to recall the peer review report. The firm is not required to sign the Notification of Discovery and Resolution letter if the firm is notified of the reviewer's decision to recall the peer review report. If the peer review documents are recalled, T~~ the peer review information and peer review documents should ~~must~~ be removed from view on Facilitated State Board Access (FSBA), and the administering entity will ~~must~~ notify the applicable state board(s) of accountancy of information allowed by the guidance.

<sup>2</sup> This represents an exception to the presumptively mandatory requirement for the reviewer to recall the peer review report upon the receipt of a copy of the Notification of Discovery and Resolution letter.

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Generally, ~~when the reviewer recalls the peer review report,~~ a replacement peer review should be performed and the documents submitted to the administering entity for technical review and committee acceptance considerations within 90 days of the date of the Notification of Discovery and Resolution letter.

#### *5. Recall and Resolutions If Discovery Is Within 120 Days of Peer Review Completion*

The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the discovery and communication to the administering entity (prompting the Notification of Discovery and Resolution letter) occurs within 120 days of the peer review completion date, there is an option to have the original reviewer recall the peer review report and perform additional procedures for the purpose of issuing a revised report. The original reviewer should be willing, qualified, and able to submit the revised peer review report and working papers to the administering entity for acceptance by the established due date, which is generally within 90 days of the date of the Notification of Discovery and Resolution letter. Alternatively, the firm, in consultation with the administering entity, may have a replacement review of the same period or a subsequent period. (See section A.6.)

If the original reviewer chooses to recall the previous report and reissue a revised report, the revised report should be dated as of the date that the reviewer obtained enough evidence to conclude on the results of the review with consideration of the newly discovered information and communicates those results to the firm (new exit conference date). There should not be a reference in the revised peer review report to the previously issued and recalled report.

In addition to submitting the revised peer review report to the administering entity, the reviewer should also submit any pertinent additional peer review documentation, including at a minimum, a revised Summary Review memorandum (~~system reviews~~) or a memo detailing the situation, reviewer's additional considerations, conclusions, and changes to engagement data statistics. The revised Summary Review memorandum (~~system reviews~~) or memo should address the omission or error in detail and fully explain the impact and conclusion on significant peer review aspects, including changes in risk assessment, engagement selection, procedures, evaluation and elevation of matters, recommendations, or report rating. The reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a Matter for Further –Consideration (MFC) form. Further evaluation of the systemic cause could lead to a Finding for Further Consideration (FFC) or deficiency in the report. The reviewer should submit peer review documentation that was significantly changed as a result of additional procedures that would ordinarily be submitted to the administering entity for acceptance in accordance with the guidance. In addition, the reviewer should also request the representation letter from the firm, specifically addressing the circumstances about information previously omitted or provided in error.

The revised peer review documents and working papers should be subjected to technical review prior to presentation to the report acceptance body (RAB). Such information should be considered in conjunction with the previously submitted and retained peer review

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documents and working papers that were not revised as well as the previous technical reviewer's checklist.

If the subsequently discovered information would have changed the type of peer review from an engagement review to a system review, then the reviewer does not have the option to revise and reissue the peer review report. Such situation would necessitate a completely new replacement review of the same period or a subsequent period. If feasible, the reviewer may consider procedures performed during the recalled review to assist with the performance of the new system review.

#### *6. Recall and Resolutions If Discovery Is More Than 120 Days After Peer Review Completion*

If the Notification of Discovery and Resolution letter is sent more than 120 days after the completion of the peer review, the firm should have a replacement review performed by a qualified reviewer. The reviewer should perform the review in accordance with guidance and submit the working papers to the administering entity by the established due date which is generally within 90 days of the date of the Notification of Discovery and Resolution letter.

The firm and approved reviewer should decide whether the replacement review should cover the same period or a subsequent period to include the previously omitted engagement(s). The firm and approved reviewer should consider such factors as the significance and risk(s) related to the omitted information or engagement(s) or subsequently completed engagement(s), time elapsed, and the established due date of the firm's replacement review. For replacement reviews, the reviewer and firm should determine the year end based on the guidance examples below. ~~also consider the firm's practice, the year ends of engagements and when the procedures were performed, and the number of engagements to be encompassed in the review to determine the appropriate year-end for the replacement review.~~ The reviewer or firm should consult with the administering entity ~~may also be consulted~~ to determine the peer review period that should be covered.

While performing the replacement review, the reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a Matter for Further Consideration (MFC) form. Further evaluation of the systemic cause could lead to a Finding for Further Consideration (FFC) or deficiency in the report.

Regardless of the period covered by the replacement review, the firm and reviewer are expected to abide by the due date established by the administering entity, which should be 90 days from the date of the Notification of Discovery and Resolution letter. ~~Therefore the peer review period covered should be reflective of engagements that the firm reasonably expects to complete before the firm's due date.~~ The firm and reviewer should consider the following examples in determining the period to be covered by the replacement review:

#### ***Example 1. Firm no longer performs similar engagements (Discovery within 12 months of peer review acceptance- replacement review of same period)***

A firm failed to inform the administering entity or reviewer that it performed a particular level of service requiring a system review (e.g. engagement year end June 30, 2012) for the

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period under review (e.g. January 1, 2012 to December 31, 2012), and the firm no longer performs that level of service after the period covered by the review. If 12 months or less have elapsed between the period covered by the previous peer review and the Notification of Discovery and Resolution letter (e.g. discovery communicated prior to December 31, 2013), ordinarily another peer review of the original period (January 1, 2012 to December 31, 2012) should be performed to include the level of service that caused the replacement review. If reviewing a subsequent 12-month period would not include the level of service or engagement(s) in question, then a replacement review of a subsequent period may not be appropriate.

***Example 2. Firm no longer performs similar engagements (Discovery more than 12 months after peer review acceptance- replacement review of subsequent period)***

A firm failed to inform the administering entity or reviewer that it performed a must-select engagement(s) (e.g. engagement year end June 30, 2012) for the period under review (e.g. January 1, 2012 to December 31, 2012), and the firm no longer performs engagements in the same must-select category after the period covered by the review. If more than 12 months have elapsed between the period covered by the previous peer review and the Notification of Discovery and Resolution letter (e.g. discovery communicated after December 31, 2013), ordinarily the reviewer should perform a replacement review of a subsequent period, but include the previously omitted engagement(s). The greater the number of prior year engagements considered, the greater the risk that the results of the review are not reflective of the peer review year covered by the report and the related peer review results. If several engagements were previously omitted, this may prompt reperformance of the peer review of the original period.

***Example 3. Firm continues to perform similar engagements***

A firm failed to inform the administering entity or reviewer that a particular level of service requiring a system review was performed or neglected to disclose that it performed a must-select engagement (e.g. engagement year end June 30, 2012) for the period under review (e.g. January 1, 2012 to December 31, 2012), and the firm has or will continue to perform similar engagements. The replacement review should include the most recently completed engagement similar to those previously omitted and the period covered should be determined by the firm and the reviewer. The period covered should consider the time elapsed between the period covered by the previous peer review and the Notification of Discovery and Resolution letter. The greater the number of prior year engagements considered, the greater the risk that the results of the review are not reflective of the peer review year covered by the report and the related peer review results. If several engagements were previously omitted, this may prompt reperformance of the peer review of the original period.

In all the preceding examples, the firm's next peer review will have a due date of three years and six months from the year end of the replacement review.

***7. Voluntary Replacement Review***

Upon receipt of the Notification of Discovery and Resolution Letter, the firm has 15 days to agree to a Voluntary Replacement Review. To have such a review performed, the firm should acknowledge and comply with the following conditions:

~~a) The firm agrees to have a replacement review submitted to the administering entity by an established due date, which should be approximately 90 days after the date of the Notification of Discovery and Resolution letter, and~~

~~b) By signing this letter, the firm provides a limited waiver of confidentiality to allow the administering entity or staff to immediately notify the applicable state board(s) of accountancy that the firm is expected to have a replacement peer review by the established due date, and the reason for the replacement review.~~

~~If the firm agrees and complies with the preceding conditions, and the reviewer does not recall the peer review report, the acceptance letter will not be recalled. However, the peer review documents should be removed from public view and Facilitated State Board Access (FSBA) to prevent continued reliance on documents that are not correct in all material respects.~~

#### *8. Involuntary Replacement Review*

~~The firm should undergo an involuntary replacement review if the firm (1) does not agree or the signed Notification of Discovery and Resolution letter is not received by the administering entity within 15 days of the date of the letter or (2) agrees to the terms in the Notification of Discovery and Recall letter within 15 days but fails to comply with the agreement to have the replacement review submitted by the established due date. If the firm is subject to an involuntary replacement review, the acceptance letter should be recalled promptly, and the peer review documents and related information should be removed from public view and FSBA, and the administering entity should notify the applicable state board(s) of accountancy of information allowed by program guidance.~~

#### *97. Firm Responsibilities*

The firm has the responsibility to notify all parties that might be relying on the peer review documents to discontinue reliance when it is determined that those documents do not comply with standards in all material respects. ~~This responsibility exists regardless of whether~~ **and** the peer review documents are recalled. This includes, but is not limited to notification to the state board(s) of accountancy (regardless of agreeing to the waiver), current or potential clients, regulators, enforcement agencies, insurance carriers, or government agencies, if applicable. The firm is also responsible for the removal of the documents from publicly available sources, such as the firm's website. The firm needs to be aware that firm noncompliance with peer review requirements could affect its ability to meet AICPA membership requirements, as well as licensing and other regulatory requirements.

It is ultimately the firm's responsibility to have the peer review submitted by the firm's due date. Therefore, the firm is responsible for hiring a reviewer who understands the importance of the issue and timing for the replacement review.

#### ~~108.~~ *Notification to State Boards of Accountancy*

##### *a. Peer Review Documents Are Recalled*

In jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, the administering entity should immediately notify the applicable state board(s) of accountancy of changes to information and documents that were ~~that access to documents previously made available has been removed or revised~~ and to contact the firm for further information. Regardless of whether the firm has opted out from peer review document access, the administering entity should inform the applicable state board(s) of the date of acceptance and the period covered by the firm's most recently accepted review (which is generally the peer review prior to recall) and other information allowed by standards paragraph .146. In addition, a similar communication should be sent when the replacement review is accepted.

##### *b. Peer Review Documents Are Not Recalled*

~~In jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, if the firm signs the Notification of Discovery and Resolution letter acknowledging the limited waiver of confidentiality related to state board communications, the administering entity should immediately notify the state board that the firm is expected to have a replacement review within 90 days and the reason for the replacement review. In addition, the state board should be notified when the replacement review is accepted.~~

#### ~~119.~~ *Additional Considerations by AICPA Staff*

In instances where there has been noncompliance with standards or noncooperation on the part of the firm, additional actions that may be considered by the staff include referral to a hearing panel of the board for termination from the AICPA Peer Review Program. The fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe. A firm's termination from the program could result in the termination of AICPA membership for all individuals within the firm. Depending on the circumstances, if the firm's enrollment is terminated through such procedures, staff may make a referral to the AICPA's Professional Ethics Division for individuals who may have violated the Code of Professional Conduct.

## **B. Considerations Related to Other ~~Errors or Omissions~~ Departures That May Change the Peer Review Report**

### *1. Confirmation of Facts by the Reviewer*

Awareness of errors or omissions could come from various sources, such as the administering entity, publicly available information, reviewers, staff, or substantiated and reliable sources. If a party other than staff discovers the information, the situation should be immediately communicated to the reviewer. If the information is of such a nature and from such a source that the reviewer would have considered it

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during the course of the peer review, the reviewer should, as soon as practicable, undertake measures to determine whether the information is reliable and whether the facts existed during the period covered by the peer review report or as of the date of the peer review report. The reviewer should discuss the situation with the firm and request cooperation in whatever efforts may be necessary to obtain evidence, and determine the relevance and impact on the peer review and related report.

## *2. Communication With the Administering Entity*

If the firm refuses to cooperate with the reviewer in efforts to confirm the facts with regard to relevance to or impact on the peer review, the reviewer should immediately consult with the appropriate administering entity because a failure to cooperate may subject a firm to fair procedures that could result in termination of the firm's enrollment in the AICPA Peer Review Program (program).

If the subsequently discovered information is found both to be reliable and to have existed as of the date of the peer review report, the reviewer should immediately notify the firm's administering entity of the situation, provide the evidence, and indicate whether the reviewer reasonably believes that the omission or error may have caused a significant shift in focus in the peer review performance, change in evaluation of results, or change in the peer review documents. Communication from the reviewer should be made in writing and addressed to the peer review committee of the administering entity regardless of whether the administering entity was the source of the information. The situation should be documented in the Notification of Discovery letter issued by the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff. Evidence supporting the discovery should be included in the Notification of Discovery letter. The administering entity should obtain confirmation of receipt indicating that both the firm and reviewer received the Notification of Discovery letter. The Notification of Discovery letter informs the firm, reviewer, and administering entity to retain all relevant peer review working papers until the matter is fully resolved or in accordance with the peer review working paper retention period, whichever is later.

## *3. Reviewer and Committee Considerations of Relevance and Impact*

The reviewer and committee should carefully and independently consider the potential impact of the information on the results of the peer review. However, depending on the circumstances, the reviewer should take the lead in the early considerations of relevance and impact due to the reviewer's familiarity with the situation. The reviewer and committee should take action in accordance with the procedures set out in subsequent paragraphs if the nature and effect of the matter are such that the reviewer and committee believe (a) the peer review procedures, report, or both would have been affected if the information had been known to the reviewer as of the date of the report and (b) persons who may attach importance to the omission or error are currently relying, or are likely to rely, on the peer review report.

Some examples that the reviewer and committee might consider when evaluating whether it is necessary to recall the peer review documents are as follows:

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- a. If the reviewer can sufficiently conclude that the subsequently discovered information would not have changed the risk assessment or engagement selection, then the reviewer and committee may determine that the peer review report may remain as originally accepted. For instance, it is discovered that an investigation was for a particular partner's engagement. If the discovery is communicated within the peer review working paper retention period, the reviewer and committee may determine that the recall of peer review documents is not necessary if a similar engagement from that partner was included in the peer review selection. If outside the retention period, the reviewer may consider it appropriate to review a representative engagement or other considerations before reaching a conclusion about whether to recall the peer review report.
  - b. If the firm had an engagement review performed, but neglected to notify the reviewer that the firm performed a level of service for which an engagement was required to be selected, the reviewer should consider the risk related to omitted level of service. For instance, the firm neglected to inform the reviewer that it performed review engagements, and only a compilation and a compilation that omitted substantially all disclosures engagements were selected during the peer review. Engagement data statistics retained by the administering entity may assist in the determination of level of services previously reviewed if discovery is beyond the peer review working paper retention period. The reviewer may consider it appropriate to review an engagement from the previously omitted level of service before reaching a conclusion about whether to recall the peer review report. The reviewer may determine that the peer review report should not be recalled if there are no deficiencies related to the omitted level of service.

The reviewer and firm should consult with the administering entity to determine implications and possible resolutions. The reviewer should inform the administering entity of his or her decision prior to informing the firm of a decision to recall the peer review report. If, after careful consideration, the reviewer determines that the omission or error would have caused a significant change in the planning, performance, evaluation of results, or peer review documents, the reviewer may decide to recall the peer review report. The reviewer's considerations and final determinations should be communicated to the administering entity and firm promptly and in writing, but no later than 30 days from the date of the Notification of Discovery letter, regardless of a final decision to uphold or recall the previously issued peer review report. A reviewer's failure to respond promptly within the indicated time period could be considered a matter of noncooperation.

#### 4. *Recall of Peer Review Documents*

If the reviewer decides to recall the peer review report, the committee of the administering entity must recall its related acceptance letter because such acceptance is not effective without the underlying report. The firm has the ability to disagree with the reviewer and the committee's decision and should follow the procedures in chapter 7, "Consultations and Disagreements," of the *Report Acceptance Body Handbook* and express its disagreement in writing to the committee of the administering entity.

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The decision to recall the peer review documents and confirmation of the firm's plan to resolve the matter and fulfill its peer review requirement should be discussed, documented, and communicated in the Notification of Acceptance Recall letter from the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff as soon as practicable. The due dates and guidelines for the proposed resolution procedures should be included in the communication from the administering entity. Generally, when the reviewer recalls the peer review report, a replacement peer review should be performed and documents submitted to the administering entity for technical review and committee acceptance considerations within 90 days of the date of the Notification of Acceptance Recall letter. The agreement should also include acknowledgment of the firm's responsibility to communicate the recall to the state board of accountancy and any other parties relying on previously accepted peer review documents, including, but not limited to, regulators, enforcement agencies, or government agencies. The appropriate representative of the firm must sign the Notification of Acceptance Recall letter and return it to the administering entity evidencing the firm's agreement to the terms. If the firm does not sign and return the agreement within 30 days of the date of the Notification of Acceptance Recall letter, this will be considered noncooperation and will not delay the recall of the peer review documents, unless the firm has provided notification of a disagreement in accordance with chapter 7 of the *Report Acceptance Body Handbook*.

#### 5. *Recall and Resolutions If Discovery Is Within 120 Days of Peer Review Completion*

-The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the discovery and communication to the administering entity (prompting the Notification of Discovery letter) occurs within 120 days of the peer review completion date, there is an option to have the original reviewer recall the peer review report and perform additional procedures for the purpose of issuing a revised report. The original reviewer should be willing, qualified, and able to submit the revised report and working papers to the administering entity for acceptance by the established due date, which is generally within 90 days of the date of the Notification of Acceptance Recall letter. Alternatively, the firm, in consultation with the administering entity, may have a replacement review of the same period or a subsequent period.

If the original reviewer decides to recall the previous report and reissue a revised report, the revised report should be dated as of the date the reviewer obtained enough evidence to conclude on the results of the review with consideration of the newly discovered information and communicates those results to the firm (new exit conference date). There should not be a reference in the revised peer review report to the previously issued and recalled report.

In addition to submitting the revised peer review report to the administering entity, the reviewer should also submit any pertinent additional peer review documentation, including at a minimum, a revised Summary Review memorandum (system reviews) or a memo detailing the situation, reviewer's additional considerations, conclusions, and changes to engagement data statistics. The revised Summary Review

memorandum (system reviews) or memo should address the omission or error in detail and fully explain the impact and conclusion on significant peer review aspects, including changes in risk assessment, engagement selection, procedures, evaluation and elevation of matters, recommendations, or report rating. The reviewer should submit peer review documentation that was significantly changed as a result of additional procedures that would ordinarily be submitted to the administering entity for acceptance in accordance with the guidance. The reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a Matter for Further –Consideration (MFC) form. Further evaluation of the systemic cause could lead to a Finding for Further Consideration (FFC) or deficiency in the report. In addition, the reviewer should also request a representation letter from the firm specifically addressing the circumstances previously omitted or provided in error.

The revised peer review documents and working papers should be subjected to technical review prior to presentation to the RAB. Such information should be considered in conjunction with the previously submitted and retained peer review documents and working papers that were not revised as well as the previous technical reviewer's checklist.

#### *6. Recall and Resolutions If Discovery Is More Than 120 Days After Peer Review Completion*

The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the Notification of Discovery letter is sent more than 120 days after the completion of the peer review, the firm should have a replacement review performed by a qualified reviewer. The reviewer should perform the review in accordance with guidance and submit the working papers to the administering entity by the established due date which is generally within 90 days of the date of the Notification of Acceptance Recall letter.

The firm and approved reviewer should decide whether the replacement review should cover the same period or a subsequent period to address concerns about the previously omitted engagement(s) or information. The firm and approved reviewer should consider such factors as the significance and risk(s) related to the omitted information or engagement(s) or subsequently completed engagement(s), time elapsed, and the established due date of the firm's replacement review. ~~The reviewer and firm should also consider the firm's practice, the year ends of engagements and when the procedures were performed, and the number of engagements to be encompassed in the review to determine the appropriate year end for the replacement review.~~ The administering entity may also be consulted to determine the peer review period that should be covered.

If the replacement review is a system review, the reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a Matter for Further –Consideration (MFC) form. Further evaluation of the systemic cause could lead to a Finding for Further Consideration (FFC) or deficiency in the report.

Regardless of the period covered by the replacement review, the firm and reviewer are expected to abide by the due date established by the administering entity, which

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should be 90 days from the date of the Notification of Acceptance Recall letter. Therefore the peer review period covered should be reflective of engagements that the firm reasonably expects to complete before the firm's due date. The firm's next peer review will have a due date of three years and six months from the year end of the replacement review.

#### *7. Reviewer Decides Not to Voluntarily Recall Peer Review Report*

If, after careful consideration, the reviewer decides not to recall the peer review report, the reviewer should summarize his or her basis for conclusion and communicate the results promptly to the committee and firm, but no later than 30 days from the date of the Notification of Discovery letter. If the committee agrees with the reviewer's determination, the administering entity should send the firm a Notification of Discovery Closure letter to the firm (copied to reviewer and staff), notifying the firm that the matter is considered closed and no further action will be taken regarding the previously accepted peer review documents.

If the committee has substantial reason to question the reviewer's decision not to recall the report, then the committee may undertake further measures. The committee (or individual designated by the committee) should consult with staff, evaluate the circumstances, and determine whether the peer review acceptance letter should be recalled notwithstanding the reviewer's decision. If the committee decides to recall the acceptance letter confirmation of the firm's plan to have the report reissued or to have another review performed, it should be documented in a Notification of Acceptance Recall letter from the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff.

The committee should consider the following scenarios depending on the timing of the discovery of the omission or error:

##### *a. Committee Considerations When Reviewer Decides Not to Recall the Peer Review Report—Discovery Within 120 Days of Peer Review Completion*

If the committee has substantial reason to believe that the reviewer's decision not to recall the previously accepted peer review report may be inappropriate, the committee should consider notifying the firm, consult with staff, and determine the most appropriate action. The committee may decide that (onsite or offsite) additional procedures should be performed by an individual acceptable to the committee to determine if the decision not to recall the report is appropriate. This could include partial or full working paper additional procedures covering all related documents underlying the peer review. Although the peer review would have already been performed, the additional procedures can still be performed afterwards with the cooperation of the firm and reviewer in either providing or forwarding requested items to the person(s) performing the additional procedures. The additional procedures should be performed as soon as reasonably practical but should commence not later than 30 days following the reviewer's communication of a decision not to recall the peer review report.

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The individual performing additional procedures should approach the review with a higher degree of skepticism with regard to the error or omissions and determine whether he or she were able to overcome concerns about the omissions or error. The individual performing additional procedures should fully report on these procedures to the committee.

- i. If the results of the additional procedures are consistent with the documents previously accepted for the review, the committee should allow the peer review documents to remain as originally accepted.
- ii. However, if the additional procedures results indicate that a substantially different peer review report (change in report rating, scope, or deficiencies identified) should have been issued as a result of the discovered error or omission, then the committee should consider recalling the previously accepted peer review documents. The administering entity should notify the reviewer of the results of the additional procedures and committee's conclusion. The committee (or individual designated by the committee) should also discuss the results with the firm. If the committee recalls the acceptance letter, the administering entity should communicate terms of the replacement review by a qualified reviewer following the guidance in section B.5. .

*b. Committee Considerations When Reviewer Decides Not to Recall the Peer Review Report—Discovery More Than 120 Days After Peer Review Completion*

If the Notification of Discovery letter is sent more than 120 days after completion of the peer review, and the reviewer decides not to recall the peer review report, then the committee should discuss the potential implications of the omission or error and should consult with staff. If, after careful consideration and its own assessment, the committee disagrees with the reviewer's conclusion not to recall the peer review report, the committee should independently consider recalling the acceptance of the peer review documents. The committee of the administering entity should thoroughly document its considerations and reasons for recalling the peer review documents and related acceptance in opposition to the reviewer's determination.

The administering entity should notify the reviewer of the committee's decision to recall acceptance and consult with the firm to determine if or when the firm should have another review performed. See section 6 for procedures for recalling peer review documents when discovery is more than 120 days after peer review completion.

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## *8. Firm Responsibilities*

The firm has the responsibility to notify all parties that might be relying on the peer review documents to discontinue reliance when it is determined that the peer review report or acceptance letter is recalled. This includes, but is not limited to notification to the state board(s) of accountancy, current or potential clients, regulators, enforcement

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agencies, insurance companies, or government agencies. The firm is also responsible for the removal of the documents from publicly available sources. The firm needs to be aware that firm noncompliance with peer review requirements could affect its ability to meet AICPA membership requirements, as well as licensing and other regulatory requirements.

It is ultimately the firm's responsibility to have the peer review submitted by the firm's due date. Therefore, the firm is responsible for hiring a reviewer who understands the importance of the issue and timing for the replacement review.

9. *Notification to State Boards of Accountancy If Peer Review Documents Are Recalled*

In jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, the administering entity should promptly notify the applicable state board(s) of accountancy **of changes to information and documents that were** ~~that access to documents previously made available has been removed or revised~~ and to contact the firm for further information. Regardless of whether the firm has opted out from peer review document access, the administering entity should inform the applicable state board(s) of the date of acceptance and the period covered by the firm's most recently accepted review (which is generally the peer review prior to recall) and other information allowed by standards paragraph .146. If the reviewer and committee determine that the omission or error does not result in a material departure from standards and the documents should not be recalled, the administering entity should not notify the state board(s) of accountancy regarding the discovery of the error or omission.

10. *Additional Considerations by Peer Review Committee or AICPA Staff*

In instances in which the committee believes that there has been noncompliance with standards or noncooperation on the part of the firm, additional actions that may be considered by the committee or staff include referral to a hearing panel of the board for termination from the AICPA Peer Review Program. The fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe. A firm's termination from the program could result in the termination of AICPA membership for all individuals within the firm. Depending on the circumstances, if the firm's enrollment is terminated through such procedures, staff may make a referral to the AICPA's Professional Ethics Division for individuals who may have violated the Code of Professional Conduct.

**Notification of Discovery and Resolution Letter**  
**(Material Departures- Errors or Omissions)**

[Date]

[Managing Partner of Reviewed Firm]

[Firm Name]

[Firm Address]

Proof of Delivery Required

Dear [Mr. / Ms.] [Last Name of Managing Partner of Reviewed Firm]:

This letter is to inform you that the accepted peer review documents for your firm's most recent peer review cannot be relied upon due to a material departure from the standards which impacts the peer review report. Therefore the acceptance letter for your firm's peer review is being recalled.

The goal of the AICPA Peer Review Program (program) is quality in the performance of accounting and auditing engagements by AICPA members and other parties who are permitted to use and who are expected to comply with the standards of the program. This goal can only be achieved if the program is conducted in compliance with the *AICPA Standards for Performing and Reporting on Peer Reviews* (standards).

The attached evidence indicates information omitted from your firm's most recently accepted peer review. AICPA staff has undertaken appropriate efforts to confirm the validity of this information and has determined that the information is both reliable and existed as of the date of the peer review report. This information was provided to the administering entity subsequent to the acceptance of the review. The AICPA Peer Review Board has determined that such omitted information would have caused a significant change in the planning, performance, evaluation of results, peer review documents (peer review report, acceptance letter, [and letter of response, if applicable]) and acceptance of the review.

Specifically, omitted information was as follows: *[insert the summary of the omitted information- see examples on next page (\*\*)] and enclose any evidence supporting this information*].

If you believe that the evidence presented herein is incorrect, please notify us and your peer reviewer within 15 days of the date of this letter.

By copy of this letter, your peer reviewer should follow the peer review guidance that indicates the reviewer should (presumptively mandatory) recall the peer review report.

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However, even if the reviewer does not communicate a decision to recall your firm's peer review report, the recall of the acceptance of the peer review, invalidates the peer review report, because it creates a situation in which your firm's peer review documents are no longer accepted by the administering entity. Your firm should have a replacement review submitted to the administering entity by [due date], which is approximately 90 days from the date of this letter.

Your firm is responsible for notifying any parties that may be relying on recalled peer review documents to discontinue reliance on those documents. Such parties include, but are not limited to, state boards of accountancy, current or potential clients, regulators, enforcement agencies, insurance carriers, or government agencies. The firm should cease further dissemination, and remove the peer review documents from public view.

When your firm's peer review is recalled, the peer review documents and related information will no longer be available on Facilitated State Board Access (FSBA). If the state board is not prohibited from accessing peer review documents and has mandatory peer review, the administering entity will notify the applicable state board(s) of accountancy of information as allowed in Standards paragraph .146. This notification includes the date of acceptance and period covered of your firm's most recently accepted peer review (which is generally the peer review prior to the recalled peer review). Please be aware that the recall of peer review documents may result in a lack of compliance with licensing and regulatory agencies.

Please acknowledge your agreement to the terms set out in this letter. Your firm's failure to comply with the terms to submit the replacement peer review by the established due date, may be deemed as a failure to cooperate with the program. A failure to cooperate with the program may subject your firm to fair procedures that could result in your firm's enrollment in the program being terminated. If your firm's enrollment is terminated, that fact will be published in such form and manner as the AICPA Council may prescribe and you [*and the members of your firm*] may no longer be eligible for AICPA membership.

If you wish to discuss this situation, please contact me at [*telephone number*].

Sincerely,

[*Name*]

[*Title*]

[*Administering Entity*]

cc:

[*Reviewed Firm Peer Review Contact*]

[*Reviewer Name*]

AICPA Peer Review Program staff

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Firm #

Review #

Acknowledged for the Firm-

Signature of Reviewed Firm Managing Partner:

\_\_\_\_\_

Date: \_\_\_\_\_

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**Notification of Discovery and Resolution Letter  
(Reviewed Firm Omission/Error)  
(Examples \*\*)**

(\*\*) Example wording for omission or erroneous information (Notification of Discovery and Resolution Letter should include sufficient detail of the situation):

- The firm had an engagement review performed and failed to inform the administering entity or reviewer that the firm performed an engagement for the period covered by the peer review that would have required the firm to undergo a system review had the information been known; or
- The firm performed an engagement in a must-select category for the period covered by the peer review and the reviewer did not consider or select a comparable must-select engagement during the system review.
- The scheduling information provided by the firm provided proper information about the firm's accounting and auditing practice. However, the reviewer failed to select such an engagement during the review.



## Peer Review Program