

April 23, 2014

Michael P. Glynn, CPA
Senior Technical Manager
AICPA
Audit & Attest Standards
1211 Avenue of the Americas, 19th Fl.
New York, NY 10036-8775

Re: November 26, 2013 ARSC Exposure Draft (ED) of a Proposed Statement on Standards for Accounting and Review Services (SSARS): *Framework for Performing and Reporting on Compilation and Review Engagements*

Dear Mr. Glynn:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC is generally supportive of the Framework but has requested certain changes outlined below, the most important of which is to include a specific reference to the AICPA Guide, *Compilation and Review Engagements* (the Guide), in the final Framework SSARS. TIC also encourages ARSC to increase the visibility of the Framework by including paragraphs in the final, clarified SSARS for *Compilation Engagements* and *Review of Financial Statements* advising practitioners that they are responsible for the content of the Framework.

SPECIFIC COMMENTS

TIC has the following specific comments for ARSC's consideration:

Reference to AICPA Compilation and Review Engagements Guide

TIC believes reference to the Guide was inadvertently omitted from the Framework ED. The definition of interpretative publications in paragraph 8 of the ED mentions "compilation and review guidance included in AICPA Audit and Accounting Guides,"

which would include the Guide. However, TIC believes that an entire guide devoted to interpretative guidance on compilation and review engagements should be cited specifically in the Framework. TIC suggests that mention of the Guide be placed in the definition and again in paragraph A44, the application paragraph for paragraph 20 (Interpretative Publications).

Paragraph 13—Conduct of the Engagement in Accordance with SSARS

As written, paragraph 13 is inconsistent with the individual, proposed SSARSs for compilations and reviews because it implies that a compilation or review would be required for all financial statements or financial information of a nonissuer (except for the stated exclusion for interim reviews of certain financial information). However, TIC believes the requirement to apply each respective SSARS is applicable only to engagements involving historical financial statements of a nonissuer. With the exception of the stated exclusion above, application of the SSARSs to a presentation of financial information appears to be optional.

In addition, TIC believes paragraph 13 of the Framework ED should include language to emphasize the engagement-driven assumption inherent in the clarified SSARSs EDs.

TIC suggests the following amendments to paragraph 13 of the ED to make the language consistent with the requirements in the *Compilation Engagements* ED and the *Review of Financial Statements* ED:

The accountant must comply with the provisions of the SSARSs when the accountant is engaged to perform a compilation or review engagement on the historical financial statements of a nonissuer, except for certain reviews of interim financial information as discussed in paragraph 3 of the proposed SSARS Review of Financial Statements. [Suggested revisions are underlined.]

Although the suggested paragraph above retains the “must” requirement, TIC was uncertain whether it was appropriate to use “must” in the Framework without having a corresponding “must” in each of the respective, clarified SSARSs. As mentioned above, TIC is also suggesting that the “must” requirement (if retained) would be limited to engagements to issue a compilation or review report on historical financial statements of nonissuers, since application of the proposed SSARSs is optional for financial information.

Paragraph A10—Application Guidance re: Management (Responsible Party)

TIC believes an additional phrase is needed at the end of this paragraph to be consistent with the *Compilation Engagements* ED and the *Review of Financial Statements* ED and AU-C Section 210 (*Terms of Engagement*), paragraph .06(b)(ii). TIC therefore suggests the following revision:

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for

designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Paragraph A11—COSO Internal Control – Integrated Framework

This paragraph specifically refers to the COSO *Internal Control – Integrated Framework* document as the source for the definition of internal control and the five interrelated components of internal control, which is consistent with extant AR 60.30, footnote 2. However, TIC believes this may be somewhat inconsistent with the approach used in the clarified auditing standards, which is and may continue to be framework neutral. Although AU-C Section 315 (*Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*), paragraph .04 (footnote 1), states that COSO is the recognized source for the definition of internal control in the SAS, COSO is not named as the source for the components of internal control, which are discussed throughout AU-C 315.

TIC suggests that ARSC reexamine paragraph A11 to determine whether it should be modeled after the approach taken by the Auditing Standards Board.

If ARSC decides to retain the COSO paragraphs, they should be revised as follows to reflect updates made in the revised COSO framework issued in May 2013:

- Slight wording changes are needed to conform to the revised definition of internal control;
- The order of paragraphs A11(3) and A11(4) should be reversed. Control Activities precede Information and Communication in the revised Framework.
- The brief descriptions of each component of internal control should be reviewed to determine if any changes are necessary.

Paragraph A21 – Ethical Requirements Relating to a Compilation or Review of Financial Statements

Within the paragraph, there appears to be an inadvertent reference to the opinion of the accountant. TIC believes “conclusion” was the intended word, as follows:

The accountant’s independence from the entity safeguards the accountant’s ability to form a review conclusion without being affected by influences that might compromise that conclusion ~~opinion~~.

Paragraph A29 – Professional Judgment

TIC believes the reference to “accounting principles” in the following sentence should be changed to “the applicable financial reporting framework” to maintain consistency within the Proposed SSARS:

Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of SSARSs and the applicable financial reporting framework ~~accounting principles~~ and is appropriate in light of, and consistent with, the facts and circumstances that were known to the accountant up to the date of the accountant's compilation or review report.

Appendix A, Other Compilation and Review Publications

TIC noted that Appendix A seems to be modeled after AU-C Appendix F, Other Auditing Publications. To be consistent with the types of publications covered in Appendix F, TIC recommends adding the following publications to Appendix A in the final Framework SSARS:

- *Accounting and Financial Reporting Guidelines for Cash- and Tax-Basis Financial Statements*
- *Applying OCBOA in State and Local Governmental Financial Statements*

Since special purpose frameworks are commonly used by smaller entities that engage accountants to perform compilation and review engagements, TIC believes these publications will be especially useful in the SSARS arena. If ARSC decides not to add them to Appendix A, they should also be deleted from Appendix F of the *Codification of Statements on Auditing Standards*, since neither publication includes specific guidance relevant to audits, reviews or compilations.

The Appendix should also be updated for any new AICPA *Technical Practice Aids* that have been issued recently.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees