

January 4, 2015

Mr. Tim Kindem, Technical Manager  
AICPA Peer Review Program  
220 Leigh Farm Road  
Durham, NC 27707-8110

**Re: November 18, 2014 AICPA Peer Review Board Exposure Draft (ED) of Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Preparation of Financial Statements Performed Under SSARS and the Impact on the Enrollment in and the Scope of Peer Review**

Dear Mr. Kindem:

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**

In TIC's response to the original ED of Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, *Preparation of Financial Statements Performed Under SSARS and the Impact on the Scope of Peer Review*, TIC supported the Peer Review Board's proposal to exclude preparation services from the scope of the AICPA's peer review program. TIC agreed with the Board's conclusion on page 6 of the original ED that financial statement users may inappropriately place reliance on the financial statements prepared by the accountant if they were subject to peer review.

TIC's support for the original ED was based on the fact that the preparation standard is a nonattest service that has no requirement for the accountant to verify the accuracy or completeness of the information provided by management, gather evidence to express an opinion or a conclusion on the financial statements or otherwise report on the financial statements. Therefore, there would be little value derived from a public interest perspective in requiring preparation services to be subject to peer review.

TIC understands that the Board has received feedback that many state boards of accountancy (SBOAs) require peer reviews of professional services performed in accordance with SSARS without specifically excluding preparation engagements. As

mentioned above, TIC agrees with the Board's concerns that users of these financial statements could place undue reliance on financial statements prepared in accordance with the preparation standard. TIC also acknowledges the Board's concerns relating to facilitating AICPA members' and others' compliance with SBOA licensing requirements and to mitigating any mobility challenges that may arise if these engagements are excluded entirely.

With this understanding, TIC agrees with the proposed changes that state a firm is not required to enroll in the AICPA peer review program if it only performs engagements in accordance with Section 70, *Preparation of Financial Statements* (preparation engagements), of SSARS 21, *SSARSs: Clarification and Recodification*. TIC also agrees that preparation engagements should be included in the scope of a peer review when a firm either elects to enroll in the program (e.g., to comply with licensing or other requirements) or is already enrolled due to other engagements it performs.

Below are specific comments and concerns related to the proposed revisions in the ED.

### **SPECIFIC COMMENTS**

#### Interpretation 104-2 – Engagement review procedures for a preparation engagement

In accordance with proposed Interpretation 104-2, the peer reviewer would

*perform procedures to determine whether the presentation of the financial statements is appropriate and that the disclosures are adequate based on the applicable financial reporting framework. If substantially all disclosures are omitted, the reviewer would need to determine whether the appropriate label is present for any disclosures that are made.* [Emphasis added]

Section 70 of SSARS No. 21 requires the accountant to disclose material misstatements in the financial statements when, after consultation with management, the accountant prepares the financial statements with known departures from the applicable financial reporting framework (SSARS 21, Section 70, paragraph 18) or with substantially all disclosures omitted (SSARS 21, Section 70, paragraph 19).

TIC believes the proposed interpretation should also address whether the peer reviewer would be required to cite a "matter/finding/deficiency" if it came to the reviewer's attention that the financial statements included a departure from the applicable reporting framework (other than the omission of substantially all disclosures) that the accountant who prepared the financial statements was aware of but failed to disclose. Unlike the omission of substantially all disclosures, such departures may or may not be readily apparent to the reviewer.

However, the omission of the disclosure required by SSARS 21, Section 70, paragraph 18, would represent a violation of professional standards (if material). TIC believes the omission of the disclosure of known departures from the applicable financial reporting

framework of which the accountant who prepared the financial statements is aware or should reasonably be aware could occur fairly frequently in practice. TIC therefore recommends that the proposed interpretation be revised to reflect the Board's views on this issue.

Although a peer reviewer could not be held responsible for detecting all nondisclosure of material misstatements of which the accountant who prepared the financial statements is aware, TIC believes that such undisclosed known misstatements that come to the reviewer's attention during the course of the peer review should be subject to the same peer review conclusion (matter/finding/deficiency) as a failure to disclose the omission of substantially all disclosures.

Proposed Revisions to Interpretation 6-3 – Compilations Performed When the Compiled Financial Statements Are Not Expected to Be Used by a Third Party (Management Use Only), Where No Compilation Report is Issued

Once SSARS 21 becomes effective, this interpretation will no longer apply and should be deleted. If the accountant is engaged to prepare financial statements for management-use only but is not engaged to issue a compilation report, the engagement would be performed in accordance with Section 70 of SSARS 21 and would not be a compilation engagement. In other words, management-use-only engagements will no longer exist after the effective date of SSARS 21.

For those firms that do not adopt SSARS 21 prior to its effective date, the extant interpretation would apply as originally drafted. It would not apply to those firms that elect to adopt SSARS 21 prior to its effective date. Therefore, during the transition period up until SSARS 21 becomes fully effective, Interpretation 6-3 should not be amended. In addition, TIC recommends that an alert (in whatever form deemed appropriate) be added to Interpretation 6-3 to ensure that firms understand when the guidance therein would be applicable.

Proposed New Interpretation 7-3 – Preparation of Financial Statements Engagements

One TIC member who practices in a state that requires a firm to be peer reviewed if it performs any engagement under the SSARSs questioned the use of the phrase "elects to enroll in the program" when a firm enrolls in the AICPA peer review program "to comply with licensing or other requirements." If a state board is requiring a firm to participate in the AICPA's peer review program, the reviewed firm views enrollment as a requirement, not an election. TIC therefore recommends that Peer Review Interpretation 7-3 be amended as follows:

*If a firm is required to enroll in the peer review program due to licensing or other requirements or otherwise elects to enroll in the peer review program,...*

TIC has not commented on the Board's requested feedback from SBOAs, since TIC does not include representatives from the SBOAs.

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,

A handwritten signature in black ink that reads "Scot Phillips". The signature is written in a cursive, slightly slanted style.

Scot Phillips, Chair  
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees