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# **EXPOSURE DRAFT**

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## **PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS**

**Preparation of Financial Statements Performed under SSARS and the  
Impact on Enrollment in and the Scope of Peer Review**

**November 18, 2014**

**Comments are requested by January 2, 2015**

**Prepared by the AICPA Peer Review Board for comment from persons  
interested in the  
AICPA Peer Review Program**

**Comments should be received by January 2, 2015 and addressed to  
Tim Kindem, Technical Manager  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road, Durham, NC 27707-8110  
or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)**

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November 18, 2014

The AICPA Peer Review Board (Board) approved issuance of this exposure draft, which contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the AICPA *Standards for Performing and Reporting on Peer Reviews* ("*Standards*").

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Electronic submissions of comments or suggestions should be sent to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after January 3, 2015 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards* and Interpretations, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* and Interpretations to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* and Interpretations are struck through, and new items are underlined). The Board is not required to expose changes to the Peer Review *Standards* Interpretations, but elected to do so to assist respondents with understanding the underlying intent of the proposed revisions to the *Standards*.

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review website at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

A handwritten signature in black ink that reads "Anita Ford".

Anita M. Ford  
Chair  
AICPA Peer Review Board

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# Explanatory Memorandum

## Introduction

This memorandum provides background to the proposed changes to the AICPA *Standards for Performing and Reporting on Peer Reviews* (Standards) issued by the AICPA Peer Review Board (Board). The proposed changes state a firm is not required to enroll in the AICPA peer review program (Program) if it only performs engagements under SSARS *Preparation of Financial Statements* (preparation engagements). This memorandum also proposes when to include preparation engagements 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. Finally, the memorandum solicits input on the proposal from all interested parties.

## Background

### Inclusion of Preparation Engagements in the Scope of Peer Review

The Board recently issued an exposure draft on August 18th that proposed to exclude preparation engagements from the scope of the Program. The Board has received feedback that many state boards of accountancy (SBOA) require peer reviews of professional services performed in accordance with SSARS without specifically excluding preparation engagements. Regardless of the actual intent behind these laws, these states could require peer reviews of preparation engagements. While the Board is concerned that users of these financial statements could place undue reliance on them, the Board wants to facilitate AICPA members' and others' compliance with SBOA licensing requirements and mitigate any mobility challenges that may arise if these engagements are excluded entirely.

Additionally, upon further consideration, the Board has concluded that a peer reviewer could perform procedures on a preparation engagement to determine whether the financial statements and their related footnote disclosures conform with the applicable financial reporting framework in all material respects. To clarify the exposure draft issued August 18th, preparation engagements require the accountant to disclose the use of a reporting framework (basis of accounting) other than GAAP and a reader could assume the financial statements were prepared in accordance in GAAP absent a disclosure stating otherwise. Additionally, as part of a review of a preparation engagement, a peer reviewer could 1) determine whether a "no assurance" legend was included on each page of the financial statements, 2) determine whether a disclaimer report, if applicable, was issued, and 3) review for a properly signed engagement letter, which contains certain information required by SSARS.

The Board has considered the previously mentioned SBOA implications, how a preparation engagement could be reviewed, and comments from its initial exposure draft in concluding that preparation engagements should not be excluded from the scope of the Program.

AICPA bylaws state that firms (or individuals in certain situations) are only required to enroll in the Program if they perform services that are within the scope of the Standards and issue reports purporting to be in accordance with AICPA Professional Standards. The proposed changes to the Standards indicate that firms only performing preparation engagements under SSARS and no other engagements included in the scope of the Standards are NOT REQUIRED to enroll in the Program to meet the bylaw requirements.

This current proposal does not require any modifications to the definition of an accounting and auditing practice for purposes of the Standards as all engagements performed under SSARS (including preparation engagements) are in the scope of both System and Engagement Reviews for enrolled firms, even if a firm elects to enroll in the Program or is required to be enrolled to comply with licensing or other requirements.

This proposal does not affect the process for selecting engagements in a System Review as selection is based on risk assessment. For Engagement Reviews, the proposal states that a preparation engagement is ONLY selected when certain requirements of paragraph .104 of the Standards cannot be met otherwise. Specifically, a preparation engagement is only selected if one of the individuals within the firm responsible for performing engagements/issuing reports only performs preparation engagements (and no other engagements within the scope of peer review) or if a firm performs no other engagements with disclosures except for preparation engagements or if a firm performs no other engagements that omit disclosures except for preparation engagements. Additionally, the requirement that ordinarily at least two engagements should be selected for review in an Engagement Review is unchanged. Therefore, if a firm only performs two engagements, one or both being a preparation engagement(s), one or both would be selected respectively.

### **Summary – ARSC’s Statement on Standards for Accounting and Review Services - Preparation of Financial Statements**

The preparation of financial statements is a non-attest service and does not require the accountant to determine whether the accountant is independent of the entity. Additionally, the accountant is not required 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.

This standard would apply when the accountant is engaged to prepare financial statements but is not engaged to perform an audit, review or a compilation on those financial statements. The standard can be applied to financial statements with or without disclosures. The standard would require that the accountant obtain an engagement letter signed by both the accountant and the client’s management.

A report would not be required – even when 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. However, in

the rare circumstance the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer (report) on the financial statements.

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
- b. A copy of the financial statements that the accountant prepared

Additionally, 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. 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. Also, certain other disclosures are required in a preparation engagement. They include disclosure of any material misstatement(s) from any known departure(s) from the relevant framework as well as a disclosure of the omission of substantially all disclosures, if applicable.

The SSARS *Preparation of Financial Statements* were issued October 23, 2014 and are effective for the preparation of financial statements for periods ending on or after December 15, 2015 with early implementation permitted.

## **Explanation of Proposed Changes**

### **Revisions to *Standards***

The proposed changes include revisions to:

- Paragraph .07 which states that firms that only perform preparation engagements (with or without disclaimer reports) under SSARS are NOT required to enroll in the Program.
- Paragraphs .104 and .108 to include preparation engagements as a type of engagement eligible to be selected under certain circumstances in an engagement review.

### **Revisions to Interpretations**

The proposal also includes new:

- Interpretations 7-3 and 7-4 which indicate how preparation engagements should be addressed when a firm elects to enroll in the Program or is otherwise already enrolled.
- Interpretations 104-1 through 104-4 which indicate how preparation engagements should be selected in an Engagement Review for an enrolled firm undergoing a peer review.

The proposed changes include revisions to:



- Interpretation 6-3 to clarify that a firm that only performs management use only compilations with no report and is not required to enroll in the AICPA peer review program, would be required to undergo a peer review if it elects to enroll in the Peer Review Program.

## **Comment Period**

The comment period for this exposure draft ends on January 2, 2015.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after January 3, 2015, for a period of one year.

## **Guide for Respondents**

The Board welcomes feedback from all interested parties on this proposal which would Not Require a firm that only performs preparation engagements to enroll in the Program. The proposal also outlines how preparation engagements should be addressed in System and Engagement Reviews for enrolled firms.

1) Do you agree with this position? Please explain why you agree or disagree.

2) The Board is interested in receiving feedback as to whether any SBOAs plan to require peer review for firms performing "services under SSARS", "issuing reports under SSARS" or any peer review requirements for engagements under SSARS that are not reviews or compilations. The Board would appreciate the applicable statute/regulation citations for any such requirements.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

Comments and responses should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Respondents can also direct comments and responses to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

## **Effective Date**

Final revisions to the *Standards* will be effective upon issuance by the Board.

# Proposed Revisions

## Peer Review Standards

### Overview

.07 The objectives of the program are achieved through the performance of peer reviews involving procedures tailored to the size of the firm and the nature of its practice. Firms that perform engagements under the SASs or Government Auditing Standards, examinations under the SSAEs, or engagements under PCAOB standards, as their highest level of service have peer reviews called System Reviews. A System Review includes determining whether the firm's system of quality control for its accounting and auditing practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including SQCS No. 8, in all material respects. Firms that only perform services under SSARS or services under the SSAEs not included in System Reviews are eligible to have peer reviews called Engagement Reviews<sup>5</sup>, however firms that only perform preparation engagements (with or without disclaimer reports) under SSARS are not required to enroll in the program (see interpretations). These standards are not intended for and exclude the review of the firm's accounting and auditing practice applicable to engagements subject to PCAOB permanent inspection (see interpretations). Firms that do not provide any of the services listed in paragraph 6 are not peer reviewed (see interpretations).

### Performing Engagement Reviews

.104 The criteria for selecting the peer review year-end and the period to be covered by an Engagement Review are the same as those for a System Review (see paragraphs 13–19). Engagements subject to review ordinarily should be those with periods ending during the year under review, except for financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection. The reviewed firm should provide summarized information showing the number of its compilation, review, and preparation engagements performed under SSARS and engagements performed under the SSAEs, classified into industry categories. That information should be provided for each partner, or individual if not a partner, of the firm who is responsible for the issuance of reports on such engagements or the issuance of prepared financial statements with or without disclaimer reports. On the basis of that information, the review captain or the administering entity ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines (See Interpretations):

- a. One engagement should be selected from each of the following areas of service performed by the firm:
  1. Review of historical financial statements (performed under SSARS)
  2. Compilation of historical financial statements, with disclosures (performed under SSARS)
  3. Compilation of historical financial statements that omits substantially all disclosures (performed under SSARS)
  4. Engagement performed under the SSAEs other than examinations

b. One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports listed in item (a).

c. Selection of preparation engagements should only be made in the following instances:

1. One preparation engagement with disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included in item (a) or when the firm's only engagements with disclosures are preparation engagements.

2. One preparation engagement that omits substantially all disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included in item (a) or when the firm's only omit disclosure engagements are preparation engagements.

3. One preparation engagement should be selected if needed to meet the requirement in item (d).

ed. Ordinarily, at least two engagements should be selected for review.

**.108** The evaluation of each engagement submitted for review includes:

a. Consideration of the financial statements or information and the related accountant's report on the compilation, and review, and preparation engagements performed under SSARS and engagements performed under SSAEs (see interpretations).

b. Consideration of the documentation on the engagements performed via reviewing background and engagement profile information, representations made by the firm, and inquiries.

c. Review of all other documentation required by applicable professional standards on the engagements.

## Peer Review Interpretations

### 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

**6-3** Question— A firm is not required to enroll in the AICPA peer review program if ~~If a firm elects to enroll in the peer review program and its only level of service is performing compilations when the financial statements are not expected to be used by a third party (management use only) and when no report is issued,~~ However, if the firm elects to enroll in the peer review program, is the firm required to have a peer review?

Interpretation— ~~No~~ Yes. If a ~~A firm that~~ A firm that elects to enroll in the peer review program, and its only level of service is performing management use only compilation engagements, it ~~is not~~ is required to have a peer review, ~~but may elect to do so. If a firm elects to undergo a peer review,~~ the peer review is required to be performed under these standards.

## **Preparation of Financial Statements Engagements**

**7-3 Question—** A firm is not required to enroll in the AICPA peer review program if its only level of service is performing preparation engagements (with or without disclaimer reports) under SSARS. However, if the firm elects to enroll in the peer review program is the firm required to have a peer review?

**Interpretation—** Yes. If a firm elects to enroll in the peer review program, and its only level of service is performing preparation engagements (with or without disclaimer reports) under SSARS, it is required to have a peer review. The peer review is required to be performed under these standards.

**7-4 Question –** Would preparation engagements (with and without disclaimer reports) be subject to peer review when the firm is already enrolled in the program because, for example, it performs services and issues reports on other engagements that are within the scope of the standards?

**Interpretation –** Yes. For firms enrolled in the program, preparation engagements (with and without disclaimer reports) fall within the scope of peer review. The standards define an accounting and auditing practice as all engagements covered by SSARS except where SSARS provide an exemption from those standards.

## **Selecting a Preparation Engagement in an Engagement Review**

**104-1 Question –** Must a peer reviewer select a preparation engagement in an Engagement Review?

**Interpretation –** No, a reviewer is not necessarily required to select a preparation engagement in an Engagement Review. If a reviewer is able to meet the requirements of paragraph .104 of the standards without selecting a preparation engagement, then a preparation engagement is not selected. However, if selecting a preparation engagement is the only way a reviewer can meet any of the following requirements (as outlined in paragraph .104 of the standards), then a preparation engagement (either with or without a disclaimer report) should be selected. These requirements are as follows:

- Ordinarily, at least two engagements should be selected for review.
- One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports or performance of engagements.
- An engagement with disclosures (performed under SSARS or the SSAEs) should be selected.
- An engagement that omits substantially all disclosures (performed under SSARS) should be selected.

**104-2 Question—**What should the peer reviewer be reviewing on such an engagement on an Engagement Review?

**Interpretation—**The reviewer would review the engagement letter as well as the legend on each page of the financial statements to determine that they comply with SSARS. If the firm issues a disclaimer report, the reviewer would also assess whether it complied with SSARS. In addition, the reviewer should also 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.

**104-3 Question**—Should the standard language in the peer review report be tailored on an Engagement Review, if preparation engagement(s) are selected for review.

*Interpretation*—No.

**104-4 Question**—What are some examples of when a preparation engagement should be selected during an Engagement Review?

*Interpretation*—

Example 1 - If a sole practitioner performs compilation engagements with disclosures (or SSAEs, or reviews) and compilation engagements that omit substantially all disclosures, then one of each of these levels of service should be selected as part of the peer review. None of the firm's preparation engagements should be selected.

Example 2 - If a sole practitioner only performs compilation engagements with disclosures and preparation engagements that omit substantially all disclosures (and no other engagements under the SSAES or SSARS), then one of each type of engagement should be selected as part of the peer review since an engagement that omits substantially all disclosures should be selected.

Example 3 - If a sole practitioner only performs compilation engagements that omit substantially all disclosures and preparation engagements with disclosures (and no other engagements under the SSAES or SSARS), then one of each type of engagement should be selected as part of the peer review since a full disclosure engagement should be selected.

Example 4 - If a sole practitioner only performs compilation engagements with disclosures and preparation engagements with disclosures, then two compilation engagements should be selected as the selection of a preparation engagement is not required to be and should not be selected to meet any of the criteria outlined in paragraph .104 of the standards. However, if the firm only performs one compilation engagement with disclosures (as well as preparation engagements with disclosures and no other engagements under the SSAES or SSARS), the compilation engagement and a preparation engagement should be selected as part of the peer review. In this case, a preparation engagement is selected in order to meet the requirement of selecting a minimum of two engagements.

Example 5 - Firm ABCDE is a 5 partner firm and Partner A performs agreed-upon procedure engagements, Partner B performs review engagements, Partner C performs full disclosure compilation engagements, Partner D performs compilation engagements that omit substantially all disclosures and Partner E performs preparation engagements. In this scenario one engagement is selected from each Partner ABCD which fulfills the requirement to select an engagement in each level of service outlined in paragraph .104a of the standards. However, since every person in the firm responsible for the issuance of financial statements must have an engagement selected, one of Partner E's preparation engagements should be selected. Since the requirement to select an engagement with disclosures and an engagement that omits substantially all disclosures has been met (through the selection of engagements performed by the other partners) any preparation engagement performed by Partner E may be selected.

Example 6 – Using the same facts described in Example 5, if Partner E also performed a review engagement and a compilation engagement that omits substantially all disclosures, either the review engagement or the compilation engagement should be selected. The reviewer should not select any of Partner E’s preparation engagements unless one of the requirements listed in paragraph .104 of the Standards cannot otherwise be met.

Corresponding changes to the Peer Review Program Manual will be made as necessary based on the final guidance approved by the Peer Review Board.