

## Agenda Item 1



### **Proposed SSARSs *Amendment to SSARS No. 21 Section 90, Review of Financial Statements (Supplementary Information)***

#### **Objective of Agenda Item**

- To discuss issues raised in the comment letters received on the proposed SSARS *Amendment to Statement on Standards for Accounting and Review Services No. 21 Section 90, Review of Financial Statements*;
- To consider proposed revisions to the draft SSARS as a result of the comments received and;
- To consider voting to issue as final SSARS.

#### **Background**

On July 6, 2016 the ARSC issued an exposure draft which proposed amendments to AR-C section 90, *Review of Financial Statements* (AICPA, *Professional Standards*) to revise paragraphs .05, .81–.82 and .A128–.A131 and add paragraphs .A10–.A11.

AR-C section 90 includes requirements and guidance when supplementary information accompanies reviewed financial statements and the accountant's review report thereon. ARSC determined that certain revisions were necessary to correct the requirements and guidance related to reporting on supplementary information.

Comments on the proposed SSARSs were due by September 2, 2016. Six comment letters were received.

#### **Issues For Discussion With the ARSC**

##### **Reporting When Reviewed Supplementary Information Does Not Accompany the Reviewed Financial Statements and the Accountant's Review Report Thereon**

The following four commenters suggested that it would be beneficial if further guidance could be provided regarding the accountant's reporting responsibilities when reviewed supplementary information does not accompany the reviewed financial statement and the accountant's review report thereon:

- RSM US LLP,
- Michigan Association of CPAs' Accounting & Auditing Standards Task Force,

- BDO USA, LLP, and
- Illinois Society of CPAs Audit and Assurance Services Committee.

It was further suggested that it would be helpful to have example report wording. In addition, guidance was requested addressing the following matters:

- Reporting on supplementary information that is not presented with the basic financial statements and whether the accountant should be required to refer to the review report on the basic financial statements.
- Whether supplementary information can be prepared on a basis that is different than that used in the preparation of the basic financial statements.
- Whether the accountant is permitted to provide a separate report on supplementary information not presented with the basic financial statements if that information has only been subject to compilation procedures or subject to no procedures at all. If so, whether a standalone report should be required to include language such as that in proposed paragraph .A131 that is required when supplementary information accompanies reviewed financial statements and the accountant's review report thereon and has not been subjected to the review procedures applied in the review of the basic financial statements.

The preliminary conclusion is that no additional requirements or guidance are needed.

The proposed Omnibus Statement on Standards for Accounting and Review Services – 2016 (Omnibus SSARS) proposes to revise paragraph .01 of AR-C section to read:

- .01** This section *applies when the accountant is engaged to perform a* ~~addresses the accountant's responsibilities when engaged to review of~~ financial statements. This section ~~may also applied, as necessary in the circumstances, to engagements~~ *when the accountant is engaged* to review other historical financial information, *excluding pro forma financial information. Reviews of pro forma financial information are to be performed in accordance with Statements on Standards for Attestation Engagements.* (Ref: par. .A1–.A2A3)

Paragraph .A1 of AR-C section 90 states that an example of other historical financial information that an accountant may be engaged to review includes supplementary information. Therefore, if the supplementary information is not presented with the reviewed financial statements and the accountant's review report thereon, the accountant would report in accordance with AR-C section 90 with no requirement to refer to the accountant's review report on the financial statements.

**Action Requested of the ARSC**

The ARSC is asked to consider whether it agrees with the preceding conclusion. Additionally, the ARSC is asked to consider whether any additional guidance is needed in either SSARSs or the AICPA Guide, *Preparation, Compilation, and Review Engagements*.

**Preconditions to Reporting on Supplementary Information**

BDO USA, LLP commented that SSARSs does not address the accountant's requirements with respect to the supplementary information in order to conclude that he or she is not aware of any material modifications that should be made to the supplementary information. BDO USA, LLP pointed out that requirements with respect to supplementary information in connection with an audit are delineated in paragraphs .05-.08 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* and suggested that, while the firm is not suggesting that requirements of the exact same nature and extent would be appropriate for review engagements, the accountant should perform some procedures in order to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the supplementary information.

Given the nature of the review engagement (primarily consisting of analytical procedures and inquiries), the ARSC has not felt that additional requirements are necessary.

Paragraphs .05-.08 of AU-C section 725 is provided as an appendix to this discussion memorandum.

**Action Requested of the ARSC**

The ARSC is asked to consider whether it continues to believe that additional requirements are not necessary with respect to reporting on supplementary information.

**Overall Action Requested of the ARSC**

The ARSC is asked to consider the issues raised in the comment letters received on the exposure draft of the proposed SSARS and whether any revisions to the draft standard should be made. The ARSC is also asked to consider voting to issue the proposed standard as final a SSARS.

**Agenda Items Presented:**

Agenda item 1A      Draft of the proposed SSARS *Amendment to Statement on Standards for Accounting and Review Services No. 21 Section 90, Review of Financial Statements* – redline to show changes from exposure draft

- Agenda item 1B Exposure draft of the proposed SSARS *Amendment to Statement on Standards for Accounting and Review Services No. 21 Section 90*, Review of Financial Statements
- Agenda item 1C Summary of comment letters received on the exposure draft of the proposed SSARS *Amendment to Statement on Standards for Accounting and Review Services No. 21 Section 90*, Review of Financial Statements

All comment letters received on the exposure draft of the proposed SSARS *Amendment to Statement on Standards for Accounting and Review Services No. 21 Section 90*, Review of Financial Statements are available at <http://www.aicpa.org/Research/ExposureDrafts/CompilationReview/Pages/LoC-on-ED-of-Proposed-SSARs-21-Section-90.aspx>

## **Exhibit**

### **Paragraphs .05-.08 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole***

## **Requirements**

### **Procedures to Determine Whether Supplementary Information Is Fairly Stated, in All Material Respects, in Relation to the Financial Statements as a Whole (Ref: par. .A9–.A15)**

**.05** In order to opine on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, the auditor should determine that all of the following conditions are met:

- a. The supplementary information was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.
- b. The supplementary information relates to the same period as the financial statements.
- c. The auditor issued an audit report on the financial statements that contained neither an adverse opinion nor a disclaimer of opinion. (Paragraph .11 addresses reporting while not opining on supplementary information when the report on the financial statements contains an adverse opinion or a disclaimer of opinion.)
- d. The supplementary information will accompany the entity's audited financial statements, or such audited financial statements will be made readily available by the entity. (Ref: par. .A9)

**.06** The auditor should obtain the agreement of management that it acknowledges and understands its responsibility

- a. for the preparation of the supplementary information in accordance with the applicable criteria.
- b. to provide the auditor with the written representations described in paragraph .07g.
- c. to include the auditor's report on the supplementary information in any document that contains the supplementary information and that indicates that the auditor has reported on such supplementary information.
- d. to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance

by the entity of the supplementary information and the auditor's report thereon.  
(Ref: par. .A9)

**.07** In addition to the procedures performed during the audit of the financial statements, in order to opine on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, the auditor should perform the following procedures using the same materiality level used in the audit of the financial statements:

- a.* Inquire of management about the purpose of the supplementary information and the criteria used by management to prepare the supplementary information, such as an applicable financial reporting framework, criteria established by a regulator, a contractual agreement, or other requirements
- b.* Determine whether the form and content of the supplementary information complies with the applicable criteria
- c.* Obtain an understanding about the methods of preparing the supplementary information and determine whether the methods of preparing the supplementary information have changed from those used in the prior period and, if the methods have changed, the reasons for such changes
- d.* Compare and reconcile the supplementary information to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves
- e.* Inquire of management about any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information
- f.* Evaluate the appropriateness and completeness of the supplementary information, considering the results of the procedures performed and other knowledge obtained during the audit of the financial statements (Ref: par. .A13)
- g.* Obtain written representations from management
  - i.* that it acknowledges its responsibility for the presentation of the supplementary information in accordance with the applicable criteria;
  - ii.* that it believes the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria;
  - iii.* that the methods of measurement or presentation have not changed from those used in the prior period or, if the methods of measurement or presentation have changed, the reasons for such changes;

- iv. about any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information; and
- v. that when the supplementary information is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon. (Ref: par. .A9)

**.08** The auditor has no responsibility for the consideration of subsequent events with respect to the supplementary information. However, if information comes to the auditor's attention

- a. prior to the release of the auditor's report on the financial statements regarding subsequent events that affect the financial statements, or
- b. subsequent to the release of the auditor's report on the financial statements regarding facts that, had they been known to the auditor at the date of the auditor's report, may have caused the auditor to revise the auditor's report,

the auditor should apply the relevant requirements in section 560, *Subsequent Events and Subsequently Discovered Facts*.