Common Areas of Inquiry: The Proposed Revisions to the Definition of Attest in the Uniform Accountancy Act (UAA) and Their Impact on Peer Review, Independence, Government Auditing, and CPA Firm Affiliates

On July 15, 2013, the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) released for a 90 day public exposure and comment period, a proposal to revise the definition of attest in the profession’s model state accounting act, the Uniform Accountancy Act (UAA). More specifically, the proposal would alter the attest definition to include all examination, review and agreed-upon procedures engagements performed under the AICPA’s Statement on Standards for Attestation Engagements (SSAEs). Currently only examinations of prospective financial information performed under the SSAE are included in the definition. (A fuller explanation and a redlined version of the proposal can be found here.)

There is a very real set of risks to the public interest associated with non-CPAs issuing reports utilizing AICPA standards and employing language conventionally used by CPAs. Implicit in the issuance of such reports is an assumption about the competence, experience, expertise, organizational protocols and processes, quality, and government regulatory oversight accompanying those reports. Other market participants do not have these same public protections or guarantees and this can lead to the public (or other end users of a report) being confused or misled when relying on a report issued by a non-CPA, which uses standard report language that suggests that AICPA standards were applied.

Interested parties will want to review the new UAA attest proposal carefully to understand fully how the changes, if added to the UAA and then brought before state legislatures for enactment, would impact the profession and the public. However, four areas that are likely to raise frequent questions relate to how the proposal might affect peer review, questions of independence, government standards, and CPA firm affiliates. This short document is designed to address those questions directly.

Peer Review

Currently, when a firm is enrolled in the AICPA peer review program or a state society peer review program using the AICPA Standards for Performing and Reporting on Peer Reviews, all engagements performed under the SSAEs are included in the scope of the peer review. This will not change.

Also, currently, there are two types of reviews within the peer review program – system and engagement reviews. The type of engagements performed dictates what type of review is applicable. Some states may have differing levels of requirements for system vs. engagement reviews. This will need to be reviewed to determine whether conforming state regulations are necessary.
It is important to note that non-AICPA firms, which presently only perform SSAE engagements other than examinations of prospective financial statements, may not currently be required to enroll in and undergo a peer review at this time (AICPA firms are already required). This proposed change would require all firms which perform SSAEs (whether exclusively or along with other services) to participate in a peer review program. Revising the definition of attest levels the playing field for all firms and promotes public protection.

**Independence and the AICPA Code of Conduct**

The proposed changes to attest are not expected to affect independence rules. The AICPA Code of Conduct includes the following definition for an “attest engagement”:

> An attest engagement is an engagement that requires independence as defined in AICPA Professional Standards.

Professional standards of practice (i.e. SAS, SSARS, SSAEs) determine when independence is required. If the professional standards require independence, the engagement is an “attest” engagement for purposes of the Code and the independence rules. All SSAE engagements currently require independence, so the proposed expansion in the definition of attest would not change the requirements of the Code.

**Governmental Auditors**

Many governmental auditors, who are CPAs, currently perform examinations, reviews, and agreed upon procedures, but do not work for a CPA firm. Instead, they work for a government audit organization. Their engagements are typically performed under AICPA standards alone, or alternatively, under both AICPA standards and Government Auditing Standards (GAGAS).

Nothing in the proposed changes to attest would impact the provision of government audits performed by federal or state officials. Such public officials are specifically exempted from the attest provisions under Section 14 (Unlawful Acts) of the UAA (see subsections (a) and (h)(2)) which generally require attest work to be done by CPAs in licensed CPA firms. These exemptions have always covered the governmental auditor community and would continue to do so in the future.

Furthermore, this proposal would not restrict governmental auditors (non-CPAs) from performing GAGAS work.

**CPA Firm Affiliates**

Currently, in some parts of the country, the affiliates of some CPA firms, which are not themselves CPA firms nor necessarily led by CPAs, may perform certain SSAE engagements and issue related reports, unless already prohibited under state law. However, in approximately a quarter of the states, the state accountancy statute already includes a definition of attest which limits all of those services and issuances of reports to CPAs operating within a CPA firm.

Under the proposed revised definition of attest, those affiliates, that do not meet the definition of a CPA firm, would no longer be able to issue SSAE reports. These types of engagements could still be performed, in part, by the affiliates, but any final report would have to be issued by a CPA in the CPA firm, itself. Many CPA firms and their affiliates have already developed
strategies to meet this requirement based on where in the United States they are performing these types of SSAEs.

If/when enacted into law, CPA firms will need to ensure they are in compliance with the new public protection requirements for the performance of SSAES in all states in which they perform SSAE engagements.

“For firms that are part of a network, all network firms [defined in ET section 92.24 of the Code] are required to be independent of clients for which the firm performs a financial statement audit or review attest engagements. For all other attest engagements, including SSAE engagements, consideration should be given to any threats the firm knows or has reason to believe may be created by network firm interests and relationships. If those threats are not at an acceptable level, safeguards should be applied to eliminate the threats or reduce them to an acceptable level.”

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