AICPA Technical Hotline’s Top A&A Issues Facing CPAs

Common Questions and Recently Issued Guidance on Compilation, Review and Audit Engagements and the Impact on Peer Review

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Speaker Biography

Kristy Illuzzi joined the AICPA in May 2007 as a Technical Manager in the Accounting and Audit Publications team. Kristy was responsible for writing, maintaining and updating Audit and Accounting Guides, Audit Risk Alerts, Checklists and Illustrative Financial Statements, and Financial Reporting Alerts. These publications are utilized by practitioners in public practice, industry, and academia. Kristy was also a project leader on the XBRL, Financial Reporting Center, and FASB Codification projects, and has worked on several publications and training materials focused on these topics. She worked on the Technical Hotline team from July 2011 through November 2013, when she was asked to join the new Center for Plain English Accounting (CPEA).

Prior to joining the AICPA, Kristy was the Controller at EngenderHealth, an international not-for-profit organization focusing on reproductive health. She also worked as an Experienced Manager for Grant Thornton, LLP in the Non-Profit Practice. Kristy started her career with Arthur Andersen in 1997, where she worked on audits of a variety of Fortune 500 clients, including the Omnicom Group, Inc.

Kristy received her Bachelors Degree in Accounting from SUNY University at Albany in May 1998. She holds CPA licenses in North Carolina and New York, and is a member of the AICPA and the North Carolina Association of Certified Public Accountants.
Speaker Biography

Frances McClintock is a Senior Technical Manager of the AICPA Peer Review Program. She is the staff liaison to the Peer Review Board and the National Peer Review Committee. She assists representatives from enrolled firms in addressing their peer review related questions, in addition to overseeing the development and maintenance of technical and administrative guidance for the AICPA Peer Review Program.

Frances has been with the AICPA for seven years. Prior to joining the AICPA, she was an audit manager with PricewaterhouseCoopers in Raleigh, NC. Frances holds both a Bachelor of Science in Business Administration and a Masters in Accounting from the University of North Carolina at Chapel Hill. She is currently licensed as a CPA in the State of North Carolina.

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Session Objective(s)

To gain a better understanding of some of the key issues affecting practitioners from 2013-2014, including:

• Issues with Implementing the Clarified Audit Standards
• The Importance of Risk Assessment
• Compilation and Review Documentation Issues
• Compilation Engagement Issues
General Disclaimer

- The technical hotline and the CPEA provide non authoritative advice on accounting, auditing, attestation, compilation and review services standards. Please note that Technical Hotline staff’s responses reflect only the staff’s opinions in light of the particular circumstances described by the inquirer and should not be viewed as an official position of the AICPA. Official positions of the AICPA are established only after extensive deliberation and due process.
- Application of generally accepted accounting principles is the responsibility of a company’s management. As such, the Technical Hotline and CPEA staff are prohibited from making subjective judgments for constituents or acting as an arbitrator on any issue (for example, a dispute between a company and its auditor).

Technical Hotline Statistics at a Glance

- This service was established back in 1950, originally fully staffed by volunteers
- Provides technical guidance (at no additional cost) to our members
- We receive more than 100 calls per day
- Open Monday through Friday from 9am-8pm EST
- Answer questions related to accounting principles, financial reporting, audit, attest, compilation and review standards, including industry specific issues
- We do not provide any answers in writing
- Some questions and answers are published into our Technical Practice Aids publication
CPEA Statistics at a Glance

- Launched in November 2013
- Acts as a “National Office” resource for firms
- Original founder was Dr. Thomas A. Ratcliffe, a recognized expert in A&A and voted one of the most prolific authors in the accounting profession
- Exclusively available to PCPS member firms
- Offer monthly reports on new and relevant A&A topics, timely alerts as new guidance is issued, answers to technical questions in writing, and 8 annual CPE webcasts (for a total of 16 CPE credits)

Issues With Implementation of the Clarified Audit Standards

- Effective for financial statements with periods ending on or after December 15, 2012
- Audits of comparative statements that span the effective date of the clarified standards
  - Use of new report format would be appropriate
  - No need to go back and reissue a December 31, 2011 report in the new format, for example
- Current audits performed on prior period statements
Issues With Implementation of the Clarified Audit Standards

► **Common issues with implementation of the group audit requirements**
  • Failure to identify components and significant components
  • Failure to identify equity method investees as components
  • When it is appropriate to make reference to other auditors

► **Components can be separate entities or may include:**
  • A parent with one or more subsidiaries or other affiliated entities
  • A head office with one or more divisions or branches

► **A significant component is a component of individual financial significance to the group or likely to include significant risks of material misstatement of the group financial statements**

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Issues With Implementation of the Clarified Audit Standards

► **Equity method investments**
  • A series of Technical Practice Aids on this issue in TIS section 8800
  • If group auditor will be referencing the component, they are not required to determine component materiality, but are required to follow other requirements of AU-C section 600

► **Reference to other auditors should not be made unless:**
  • Group engagement partners have determines that component auditors have performed audits of component financials in accordance with U.S. GAAS
  • Component auditors have not issued their reports so that they are restricted in use
How does this impact my peer reviews?

- Impact on risk?
- Impact on engagements?
- Would this result in a “no” answer or matter?
  - Early adoption - not permitted, but Peer Review Board decided this would not result in a non-conforming engagement
  - Failure to adopt - engagement is non-conforming

Risk Assessment

- The importance is risk assessment
  - Not intended to make audits more onerous
  - If followed properly, they allow the auditor to properly tailor their procedures

- Significant risks
  - Many times auditors over use significant risks
  - They are defined as those risks of material misstatement that require special audit consideration
  - Standard audit work programs typically address 80-90% of risks, what about the other 10-20% that represent significant risks?
  - Sometimes auditors spend more time on risks that are not deemed significant, when perhaps they should be more focused on the significant risks
Risk Assessment

► Defaulting to maximum risk
  • One of the most common misconceptions for audits of smaller, less complex entities
  • The standards no longer allow you to default to maximum risk
  • Even the smallest of entities have some controls, even if they are high level controls and are not documented
  • If an entity has one or two controls in place to help mitigate the risks of misstatement, it would be more effective to test those controls first before deciding what substantive tests to perform
  • It is important for engagement team leaders to discuss the concepts of risks and significant risks with the entire engagement team

Risk Assessment

► Client lack of control documentation
  • Does not necessarily mean that a control should not be tested

► First time engagements
  • Risk assessment process is typically more challenging since controls are being reviewed for the first time
  • Might review predecessor auditor’s documentation of risk, but should perform your own assessment
  • Can also be tricky if the auditor is asked to perform an audit of a period that has already passed

► Walkthrough Procedures
  • Not the only way to test controls
  • Might also have discussions with management, review internal memos and prior year documentation
Risk Assessment

➤ Audit documentation should include:
  • Any identified significant risks
  • The assertions affected
  • Assessments of inherent risk, control risk, and the risk of material misstatement
  • Audit procedures beyond the standard work program procedures needed to mitigate the risks identified
  • Linkage of the audit procedures in the work program to these risks (cross-referencing)

➤ Key citations in the audit standards to review
  • AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
  • AU-C section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained

How does this impact my peer reviews?

➤ Impact on risk?
➤ Impact on engagements?
➤ Would this result in a “no” answer or a matter?
Compilation and Review Documentation Issues

► Documenting significant engagement findings or issues
► At times practitioners will follow practice aids and identify findings or issues, but there is no additional documentation as to what those issues were and final conclusions reached
► Engagement documentation is required no matter what level of service you are performing

Examples Where Additional Documentation Might be Appropriate for a Review

► Revenues appear to be overstated and are higher than expectations
► A VIE assessment has not been performed on an affiliate
► Deterioration of revenues trigger questions about economic viability
► Loan covenant compliance issues
► Significant subsequent events
► A business combination occurred during the period
► Significant uncertain tax positions exist
► There has been a restatement of previously issued financials
Compilation and Review Documentation

Issues

► Supplementary Information
  • Failure to identify supplementary information in the report
  • For a review, the practitioner should clearly indicate the degree of responsibility they are taking for that information

► Engagement workpaper retention
  • Commonly asked question through hotline
  • What is the rule in the SSARS?

Compilation and Review Documentation

Issues

► Documenting the basis of accounting used
  • Can be an issue when compiling information in prescribed forms
  • Just because a special form is being used does not mean you are using a special purpose framework
  • Look to the preparation and presentation of the items to determine the framework being applied
  • See AR section 300 for guidance as well as sample report language
How does this impact my peer reviews?

- Impact on risk?
- Impact on engagements?
- Would this result in a “no” answer or a matter?

Compilation Engagement Issues

- Compilations versus bookkeeping services
  - SSARSs apply whenever an accountant submits financial statements to a client or third parties
  - Submission of financial statements is defined as “presenting to management financial statements that the accountant has prepared”
  - See TIS section 9150.25 for additional information and examples
Compilation Engagement Issues

Factors to consider in making to assessment:
- The process used to create the financial statements
- Whether the client engaged the accountant to prepare financial statements or reasonably expected them to do so under the engagement
- The extent of work effort the accountant contributed to the existence of the financial statements
- Where the underlying accounting information resides
- Just because clients may have access to be able to print their own financial statements does not mean the accountant did not compile them

How does this impact my peer reviews?
- Impact on risk?
- Impact on engagements?
- Would this result in a “no” answer or a matter?
Technical Hotline Contact Information

- Technical Hotline is open Monday-Friday from 9am-8pm EST (excluding major holidays)
- Direct line is 1-877-242-7212
- You can submit questions online at www.aicpa.org/Hotlineform
- Technical Hotline pages on aicpa.org at http://www.aicpa.org/Research/TechnicalHotline have additional information, including recently issued TIS Questions and Answers

Additional Resources

- The CPEA website at www.aicpa.org/CPEA
- FASB Accounting Standards Codification, basic view is free and you can register at www.fasb.org
- Financial Reporting Center at www.aicpa.org/FRC has additional resources, including recent peer review matters identified and industry insights (some content is locked for members only)
- Technical Practice Aids publication available at www.cpa2biz.com that includes non-authoritative questions and answers on key topics and industries
- SEC Edgar database at www.sec.gov to search public company filings for sample disclosures
Summary and Questions