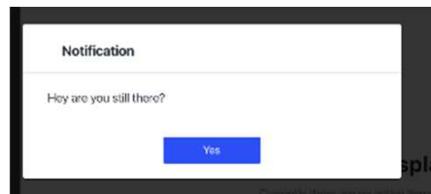


## Uniform Guidance Compliance Update (UGC2)



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# Unit 1: AICPA Update – Attestation and Review Engagements



## Learning Objectives

- Identify and describe recently issued SSAEs (attestation standards)
- Apply SSARs requirements found in recently issued SSARs 25, *Materiality in a Review of Financial Statements and Adverse Conclusions* to accounting and review service issues such as engagement terms, independence, reporting, and documentation



## Attestation Engagements

- Examination Engagement
- Review Engagement
- Agreed-Upon Procedures Engagement



## Attestation Engagements

### Objectives

- Apply the requirements relevant to the attestation engagement
- In an examination engagement, report on the subject matter or conclusion with an opinion
- In a review engagement, report on the subject matter or assertion with a conclusion
- In an agreed-upon procedures engagement, report on the procedures performed and related findings without providing an opinion or conclusion on the subject matter



## Attestation Engagements

### Objectives (cont'd)

- Communicate as required by the applicable AT-C section, in accordance with the results of the practitioner's procedures
- Implement quality control procedures at the engagement level that provide the practitioner with reasonable assurance that the attestation engagement complies with professional standards and applicable legal and regulatory requirements



## SSAE 20, Amendments to the Description of the Concepts of Materiality

### Objective

- SSAE 20 aligns the materiality definition with the description of materiality used in the U.S. judicial system, the auditing standards of the PCAOB, the SEC, and the FASB
- The ASB believes it is in the public interest to eliminate inconsistencies between the AICPA *Professional Standards* and the description of materiality used by the U.S. judicial system and other U.S. standard setters and regulators



## SSAE 20, Amendments to the Description of the Concepts of Materiality

### Definition

- *Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements*



## SSAE 21, Direct Examination Engagements

### Objective

- SSAE 21 enables practitioners to perform an examination engagement in which the practitioner obtains reasonable assurance by measuring or evaluating underlying subject matter against criteria and expressing an opinion that conveys the results of that measurement or evaluation



## SSAE 21, Direct Examination Engagements

### Definitions

- Assertion-based examination engagement
- Direct examination engagement
- Underlying subject matter
- Subject matter information
- Responsible party



## SSAE 21, Direct Examination Engagements

### Provisions - Section 205 - Assertion-Based Examination Engagement

When performing an assertion-based examination engagement the engagement provides reasonable assurance about whether the subject matter or an assertion about the subject matter is free from material misstatement, whether due to error or fraud

To obtain reasonable assurance, the practitioner should:

- Obtain an assertion from the responsible party
- Plan the work and properly supervise other members of the engagement team
- Identify and assess the risks of material misstatement, whether due to error or fraud, based on an understanding of the subject matter, its measurement or evaluation, the criteria, and other engagement circumstances



## SSAE 21, Direct Examination Engagements

### Provisions - Section 205 - Assertion-Based Examination Engagement (cont'd)

When performing an assertion-based examination engagement the engagement provides reasonable assurance about whether the subject matter or an assertion about the subject matter is free from material misstatement, whether due to error or fraud

To obtain reasonable assurance, the practitioner should (cont'd):

- Obtain sufficient appropriate evidence about whether material misstatements exists by designing and implementing appropriate responses to the assessed risks.
- Examination procedures may involve inspection, observation, analysis, inquiry, reperformance, recalculation, or confirmation with outside parties



## SSAE 21, Direct Examination Engagements

- Section 206 - Direct Examination Engagement
- When performing a direct examination engagement, the practitioner would evaluate whether the underlying subject matter meets the stated criteria and perform other procedures to obtain sufficient appropriate evidence to provide an opinion on the results of that evaluation
- In this engagement, the responsible party would make no assertions
- To obtain reasonable assurance, the practitioner would (next slide):



## SSAE 21, Direct Examination Engagements

### Section 206 - Direct Examination Engagement (cont'd)

- Ensure that the responsible party acknowledges its responsibility for the underlying subject matter
- Perform applicable procedures such as planning, risk assessment, materiality considerations, tests of controls, analytical procedures, test of estimates, sampling, evaluation of fraud risk, evaluation of compliance with laws and regulations, using specialist and the work of internal auditors, and considering subsequent events
- Also perform applicable procedures involving the terms of engagement, written representations, and the content of the report

The practitioner must be independent of the underlying subject matter



## SSAE 21, Direct Examination Engagements

Report Examples



## SSAE 22, Review Engagements

### Objective

SSAE 22 describes the types of procedures a practitioner may perform in a review engagement - SSAE 22 also:

- Clarifies for practitioners that the objective of a review engagement is to obtain limited assurance
- Results in more transparent reporting by requiring that the practitioner disclose in a review report the procedures performed to obtain limited assurance
- Allows the practitioner to issue a report containing an adverse review conclusion when the subject matter is materially and pervasively misstated



## SSAE 22, Review Engagements

### Provisions

- Based on the practitioner's understanding of the subject matter and other engagement circumstances, the practitioner is required to identify areas in which a material misstatement of the subject matter is likely to arise and design and perform procedures to address such areas to obtain limited assurance to support the conclusion in the practitioner's report
- While review evidence obtained through the performance of inquiry and analytical procedures will ordinarily provide the practitioner with a reasonable basis for obtaining limited assurance, analytical procedures may not be possible when the subject matter is qualitative, rather than quantitative



## SSAE 22, Review Engagements

### Provisions (cont'd)

- Additionally, analytical procedures may not provide sufficient appropriate review evidence if an expectation cannot be developed
- Therefore, the practitioner may determine that other procedures are more effective or efficient to obtain limited assurance
- While inquiry procedures are required, in addition to inquiry, SSAE No. 22 provides the following examples of procedures to obtain review evidence (next slide):



## SSAE 22, Review Engagements

### Provisions (cont'd)

- Analytical procedures
- Inspection
- Observation
- Confirmation
- Recalculation
- Reperformance



## SSAE 22, Review Engagements

### Provisions (cont'd)

To obtain limited assurance in a review engagement, the practitioner should do the following:

- Obtain an assertion from the responsible party
- Plan the work and properly supervise other members of the engagement team
- Focus procedures in areas where the practitioner believes increased risks of misstatements exist, whether due to error or fraud, based on the practitioner's understanding of the subject matter, its measurement or evaluation, the criteria, and other engagement circumstances



## SSAE 22, Review Engagements

### Provisions (cont'd)

To obtain limited assurance in a review engagement, the practitioner should do the following (cont'd):

- Obtain review evidence, through the application of inquiry and analytical procedures or other appropriate procedures to obtain limited assurance that no material modifications should be made to the subject matter in order for it to be in accordance with) or based on) the criteria
- A review engagement would normally test fewer transactions or subject matter than that in an assertion-based or direct examination engagement



## SSAE 22, Review Engagements

Example Report



## SSARS Review Engagements

### SSARS 21

- AR-C Section 60, General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services
- AR-C Section 70, Preparation of Financial Statements
- AR-C Section 80, Compilation Engagements
- AR-C Section 90, Review of Financial Statements



## SSARS Review Engagements

### SSARS 21 (cont'd)

The major changes to SSARS engagements made by SSARS 21 include:

- Incorporates the AICPA Clarity Drafting Conventions, similar to those previously applied to auditing standards
- Introduces a new level of service called preparation - This is a non-attest service where the accountant prepares, but does not report or provide any assurance on the financial statements
- Includes revisions to the compilation and review standards, mostly affecting reports and engagement letters



## SSARS Review Engagements

### SSARS 21 (cont'd)

The major changes to SSARS engagements made by SSARS 21 include (cont'd):

- Management-use-only compilation engagement has been eliminated, so that all compilation engagements will include a report
- Revises guidance on the circumstances that determine the type of service provided. The type of service is dependent on what the accountant was engaged to do
- Requires a signed engagement letter for all engagements covered by SSARS 21, including preparation engagements



## SSARS Review Engagements

Subsequent to the issuance of SSARS 21, the ARSC continued with additional clarifications as amendments to the SSARS literature with the issuance of:

- SSARS 22, *Compilation of Pro Forma Financial Information* effective for compilation reports on pro forma financial information dated on or after May 1, 2017
- SSARS 23, *Omnibus Statement on Standards for Accounting and Review Services – 2016*, generally effective upon issuance
- SSARS 24, *Omnibus Statement on Standards for Accounting and Review Services – 2018*, generally effective for compilations and reviews of financial statements for periods ending on or after June 15, 2019



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Introduction

- SSARS 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*, was issued February 2020, by the Accounting and Review Services Committee (ARSC)
- SSARS 25 aligns ARSC engagements closer to the International Standards for Review Engagements (ISRE 2400 – Engagements to Review Historical Financial Statements)
- SSARS concepts, such as materiality, will also align with generally accepted auditing standards (GAAS)



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Definitions

- Financial Reporting Framework
- Applicable Financial Reporting Framework
- Fair Presentation Framework
- Reasonable Period of Time
- Review Evidence
- Inquiry
- Limited Assurance



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Definitions (cont'd)

- Unmodified Conclusion
- Modified Conclusion
- Pervasive
- Qualified Conclusion
- Adverse Conclusion



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### SSARS 25 Changes

- General Principles – AR-C Section 60
- Preparation of Financial Statements – AR-C Section 70
- Compilation Engagements – AR-C Section 80
- Review of Financial Statements – AR-C Section 90



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Review of Financial Statements – AR-C Section 90

- Expressing a conclusion
- Limited assurance
- Modified conclusion
- Qualified conclusion
- Adverse conclusion
- Report language



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Review of Financial Statements – AR-C Section 90 (cont'd)

- Revise materiality
- Designing and performing analytical procedures and inquiries
- Additional review guidance
- Examples of transactions, events, or matters



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Objectives of the Accountant

- Obtain limited assurance, primarily by performing analytical procedures and inquiries, as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework
- Report on the financial statements as a whole and communicate, as required by AR-C 90



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Materiality in a Review of Financial Statements

- The accountant should determine materiality for the financial statements as a whole and apply this materiality in designing the procedures and evaluating the results obtained from those procedures
- The accountant should revise materiality for the financial statements as a whole if the accountant becomes aware of information during the review that would have caused the accountant to have determined a different amount initially



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Materiality in a Review of Financial Statements (cont'd)

In obtaining sufficient appropriate review evidence as the basis for a conclusion on the financial statements as a whole, the accountant should design and perform the analytical procedures and inquiries to address the following:

- All material items in the financial statements, including disclosures
- Areas in the financial statements where the accountant believes there are increased risks of material misstatements



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

- Evaluating review evidence obtained from the procedures performed
- Consideration of the applicable financial reporting framework in relation to the financial statements
- Review documentation



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Review Documentation

- The nature, timing, extent, and results of the work performed such as inquiry, analytical, or other procedures
- The review evidence obtained from the review procedures performed and the accountant's conclusion formed on the basis of that review evidence
- The source of the review evidence
- Significant matters arising during the review, the accountant's conclusions reached, and significant professional judgments made in reaching those conclusions



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Review Documentation (cont'd)

- An engagement letter
- A copy of the review report issued and the financial statements
- Analytical procedures performed
- Any additional review procedures performed in response to significant unexpected differences and the results of these procedures
- The results of significant inquiries



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Review Documentation (cont'd)

- Any significant findings or issues
- Significant unusual matters
- Any verbal or written communication of fraud or illegal acts
- Communications with management regarding the accountant's expectation to include emphasis-of-matter or other-matter paragraph(s) in the accountant's review report



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

### Review Documentation (cont'd)

- Communication with management, those charged with governance, and others as relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters
- If, in the course of the engagement, the accountant identified information that is inconsistent with the accountant's findings regarding significant matters affecting the financial statements, how the inconsistency was addressed
- Communications with other accountants that have audited or reviewed the financial statements of significant components
- A signed representation letter



## SSARS 25, Materiality in a Review of Financial Statements and Adverse Conclusions

Report Examples



## Reminders

- Post event evaluation:** Please complete the course evaluation that will be pushed out to you as a pop up link on your screen. We welcome your feedback!

