

TYPES OF REVIEWS

The AICPA *Standards for Performing and Reporting on Peer Reviews* include three levels of peer reviews: System Reviews, Engagement Reviews, and Report Reviews. Each firm enrolled in the AICPA or the SCACPA Peer Review Programs is subject to one of these three types of reviews.

System Review

System reviews apply to firms that perform engagements under:

- Statements on Auditing Standards (SASs),
- Examinations of prospective financial information under the Statements on Standards for Attestation Engagements (SSAEs),
- *Government Auditing Standards* (the yellow book), issued by the U. S. Government Accountability Office.

A system review is generally performed every three years and is intended to provide the reviewer with a reasonable basis for expressing an opinion whether, for the year under review, the reviewed firm

- Has designed its system of quality control for its accounting and auditing practice in accordance with AICPA quality control standards,
- Is complying with its quality control policies and procedures in a way that will provide the firm with reasonable assurance of conforming with professional standards.

Engagement Reviews

Engagement reviews are available only to firms that perform no engagements under the Statements on Auditing Standards (SASs), or examinations of prospective financial statements under the Statements for Standards for Attestation Engagements (SSAEs). Firms required to have an engagement review may elect to have a system review.

- Firms that perform only compilation engagements that omit substantially all disclosures will be subject only to a report review, which is described below. (Although inclusion of selected disclosures for financial statements that otherwise omit substantially all disclosures are subject to an engagement review.)
- An engagement review will carry an additional objective to assess whether working paper documentation conforms with the requirements of SSARS and SSAEs, as applicable to those engagements in all material respects.

An engagement review provides no opinion on the reviewed firm's system of quality control and therefore the reviewer is not opining on the firm's compliance with its own quality control policies and procedures or with AICPA quality control standards. It merely provides limited assurance that the submitted reports, financial statements and

information conform with the requirements of *Professional Standards* and documentation are in conformity with SSARS and SSAEs.

Since an engagement review does not require a firm to document any work other than that required by SSARS or SSAEs, the peer reviewer only expresses limited assurance on whether the firm's documentation conforms with those standards. Some examples of the documentation that a reviewer would consider in his/her procedures include

- Management representation letter on review engagements
- Documentation of the matters covered in the accountant's inquiry and analytical procedures in a review engagement
- Unusual matters that the accountant considered during the performance of the review including their disposition
- Documentation as may be required by SSAEs
- Engagement letter for SSARS 8 compilations
- Documentation required by Ethics Interpretation No. 101-3.

Both **System** and **Engagement** reviews may result in four types of reports:

1. Unmodified without comments
2. Unmodified with comments
3. Modified – significant departures/findings
4. Adverse

Report Review

This type of review applies only to firms that perform compilations that omit substantially all disclosures. There is one exception to this general rule. If the firm compiles financial statements that include, as referred in the SSARSs, "selected information – substantially all disclosures required are not included," then the firm must undergo an engagement review. At its option, a firm required to have only a report review, may elect to have either a system review or an engagement review.

A report Review provides no opinion on the reviewed firm's system of quality control; therefore, the reviewer does not express an opinion on the firm's compliance with its own quality control policies and procedures, or with AICPA quality control standards.

Some examples of the documentation that a reviewer would consider in his/her procedures include:

- A copy of the financial statements and the accountant's report. (The clients name may be deleted and, if that is done, the engagement should be assigned a code number by the firm. The firm should retain a record of those code numbers to facilitate responding to any questions by the reviewer in the course of the review.)

● A copy of the engagement letter for any SSARS No. 8 engagements submitted.

At the conclusion of the report review, the reviewer gives the firm a report that lists comments and recommendations, if any, based on whether the financial statements and the related accountant's reports appear to conform with the requirements of professional standards in all material respects. Report review may be issued as follows:

1. Without comments
2. With comments
3. With significant comments

An authorized member of the reviewed firm must sign the report acknowledging that there are no disagreements on significant matters, and that the firm agrees to correct all matters that are commented upon within the report.

Interpretation No. 7 – Compilations Performed under the Statement on Standards for Accounting and Review Services (SSARs) No. 1, Amended by SSARS No. 8, Where no Compilation Report Is Issued

SSARS No. 8, Amendment to Statement on Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements*, permits an accountant, in very specific circumstances, to document its understanding with the entity for which it prepares a compilation for management's use only, through the use of an engagement letter instead of issuing a compilation report. This approach is only available when the accountant submits un-audited financial statements to his/her client that are not expected to be used by a third party.

Where a compilation report is not issued under these circumstances, peer reviewers will review the engagement letter to determine that the documentation of the understanding includes the requirements detailed in SSARS No. 8. The reviewer will also review the financial statements to determine that the required restriction of their use is on each page. Except for the restriction of use, the reviewer will not be reviewing the financial statements, disclosures, or supplementary information for accuracy, appropriateness, or conformity with professional standards. If the reviewed firm has only SSARS 8 engagements, the firm may resign from the peer review program; but if the firm remains enrolled in the peer review program, the firm is subject to peer review and the SSARS 8 engagements are subject to review.