

# UPDATE ON SSARS AND ATTESTATION STANDARDS

2025 AGA Central Ohio  
Chapter Conference

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# Agenda

Overview of recently issued standards

What is a review engagement?

Analytical procedures in a review of financial statements

Attestation Standards

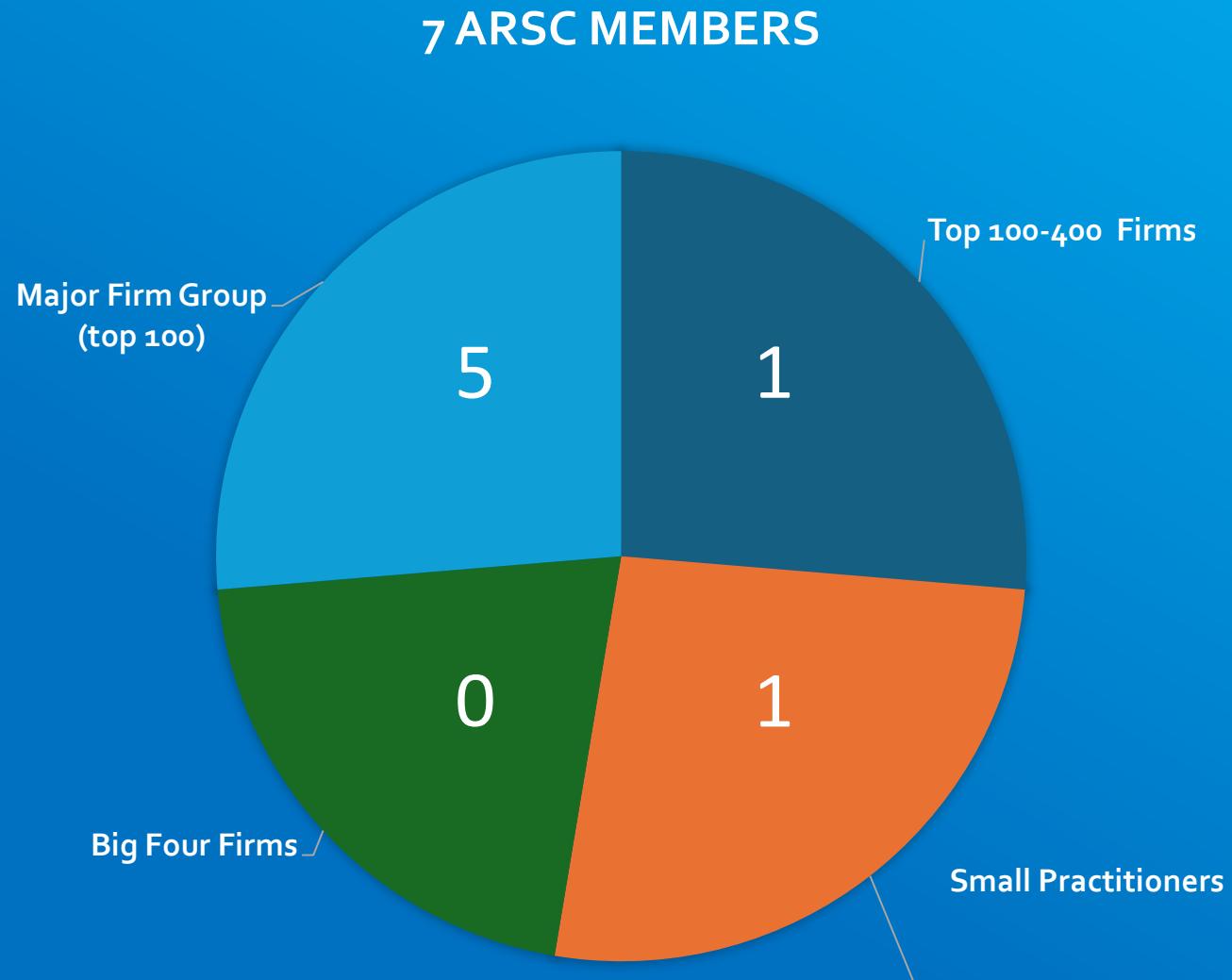
ARSC Areas of Focus

Questions

# ARSC Mission and Members



ARSC is a senior committee of the AICPA designated by Council to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of a nonpublic entity.



# Issued SSARSs Standards with Upcoming Effective Dates

Standard	Title	Effective date
SSARSs		
26	Quality Management for an Engagement Conducted in Accordance with SSARS	Engagements performed in accordance with SSARS for periods beginning on or after December 15, 2025  Except the technical revision which was effective on issuance.
27	Applicability of AR-C Section 70 to Financial Statements Prepared as Part of a Consulting Services Engagement	Preparation of financial statements for periods ending on or after December 15, 2026

Early implementation permitted.

# SSARs No. 26, *Quality Management for an Engagement Conducted in accordance with SSARs*

- Issued June 2022
- Amends AR-C sections 60, 70, 80, and 90
- Enhances certain concepts related to quality management for engagements performed in accordance with SSARs
- Ensures that certain concepts related to quality management, where appropriate, are consistent between the auditing standards and SSARs
- Includes a technical revision to remove the requirement for the review engagement letter be obtained prior to the start of the review engagement.
  - The timing is now consistent with other AR-C sections and the auditing and attestation literature

# SSARs No. 26, *Quality Management for an Engagement Conducted in accordance with SSARs*

## Fundamental aspects of SSARS No. 26

- Emphasizes the importance of the exercise of professional skepticism
- Enhances the documentation of the accountant's judgments
- Reinforces the need for robust communications during the engagement
- Addresses how the engagement partner leverages the firm's system of quality management and manages quality at the engagement level.
- Engagement partner has overall responsibility for managing and achieving quality

**The engagement partner is required to take responsibility for the direction and supervision of the engagement team and review of their work.**

## SSARs No. 26, *Quality Management for an Engagement Conducted in accordance with SSARs*

Includes requirements relating to:

- Understanding of the relevant ethical requirements and whether members of the engagement team are aware of those requirements and the firm's related policies and procedures
- Threats to compliance with relevant ethical requirements
- Determining whether relevant ethical requirements, including those related to independence have been fulfilled

# When Does Section 70 Apply?

AR-C section 70 applies when the accountant is engaged to prepare f/s but not engaged to perform an audit, review, or compilation on those f/s

- Engaged is the equivalent of being “hired”
- Engaged does not mean obtaining an engagement letter
- Obtaining an engagement letter is a required procedure after being engaged!
- **It is important to understand what the client has hired the CPA to do!**

**Preparation  
Engagements**

# SSARS No. 27, Applicability of AR-C Section 70 to Financial Statements Prepared as Part of a Consulting Services Engagement

- Issued April 2025
- Explicitly excludes the required application of AR-C section 70 when financial statements are prepared as part of a consulting services engagement
  - a) performed in accordance with CS section 100, *Consulting Services: Definitions and Standards* and
  - b) in which the preparation of financial statements is not the primary objective of the engagement.
- Issued to address misunderstanding regarding whether AR-C section 70 is required to be applied when controllership or CFO services are performed under CS section 100 and financial statements are prepared as part of that engagement.

**Client advisory services (CAS) is one of the fastest growing practice areas in the profession. Many of these engagements entail an outside accountant taking on responsibilities that may include functioning as the client's outsourced CFO.**

# SSARS No. 27, Applicability of AR-C Section 70 to Financial Statements Prepared as Part of a Consulting Services Engagement

## Protection of the Public Interest

- Services performed in accordance with both AR-C section 70 and CS section 100 are both nonattest services in which no opinion, conclusion, or any form of assurance is provided
- Safeguards included in CS section 100 minimize the risk that a user would be misled by the accountant's association with the financial statements the CPA prepared as part of the consulting service
- CPA would continue to be required to comply with the Code of Professional Conduct.

**CS section 100 states that the general professional standards of professional competence, due professional care, planning and supervision, and sufficient relevant data apply to consulting services.**

# SSARS No. 27, Applicability of AR-C Section 70 to Financial Statements Prepared as Part of a Consulting Services Engagement

## Practical Implications

- Unlike engagements performed in accordance with AR-C section 70, engagements performed in accordance with CS section 100 are not required to be subjected to the firm's system of quality management because engagements are outside of the firm's accounting and auditing practice (as defined in SQMS No. 1)
- Engagements performed in accordance with CS section 100 are excluded from engagements subject to peer review.

ARSC considered these implications and concluded that CS section 100 provides the appropriate safeguards regarding the practitioner's association with the financial statements as well as the protections provided by the Code of Conduct.

# SSARS No. 27, Applicability of AR-C Section 70 to Financial Statements Prepared as Part of a Consulting Services Engagement

The applicability of AR-C section 70 is not changed – just clarified

- CPA remains required to apply AR-C section 70 when the preparation of financial statements is the primary objective of the engagement.
- The CPA may voluntarily apply certain requirements of AR-C section 70 in instances in which the section would not otherwise apply.
  - For example, the accountant may include the statement required by AR-C section 70 that “no assurance is provided” on the financial statements.
  - The inclusion of such a statement does not result in the CPA being required to perform the engagement in accordance with AR-C section 70 and no other requirements would be required to be applied.

**Can voluntarily apply all or part of AR-C section 70.**

# What is a Review of Financial Statements?

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# Objective of a Review

- The objective of a review is to 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 in order for the statements to be in conformity with the applicable financial reporting framework (for example, U.S. GAAP, cash-basis or tax-basis).
- ACCOUNTANT ACCUMULATES REVIEW EVIDENCE TO OBTAIN A LIMITED LEVEL OF ASSURANCE
- A REVIEW IS AN ASSURANCE ENGAGEMENT

The review engagement is more closely related to an audit of financial statements in which reasonable assurance is obtained.

A review is very different from a compilation which no assurance is obtained.

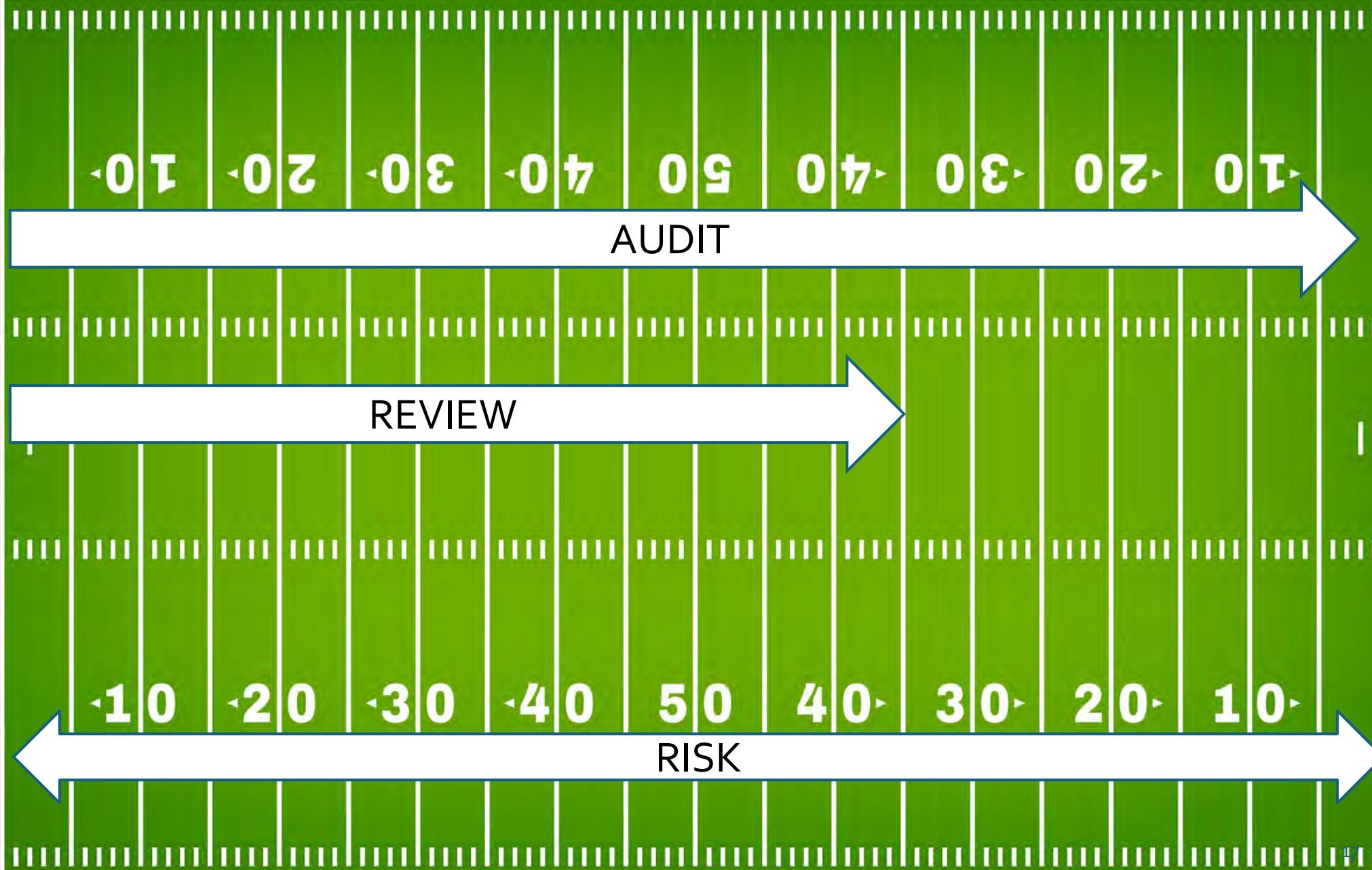
NO ASSURANCE

AUDIT

REVIEW

RISK

ABSOLUTE ASSURANCE



# Review Performance Procedures

Review procedures are tailored based on the accountant's:

- Understanding of the industry
- Knowledge of the client
- Awareness of the risk that he or she may unknowingly fail to modify the accountant's review report on f/s that are materially misstated
- A review engagement only requires an awareness of RMM. In contrast an audit requires a formal assessment of RMM.

# Review Performance Procedures

The accountant performs primarily analytical procedures and inquiries to obtain sufficient appropriate review evidence as the basis for a conclusion on the financial statements as a whole.

In obtaining sufficient appropriate review evidence as the basis for a conclusion on the financial statements as a whole, the accountant is required to 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

It is expected that the review documentation include those areas where the accountant believes there are increased risks of material misstatement and how the review procedures addressed those risks.

# Analytical Procedures in a Review of Financial Statements

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# Analytical Procedures

- An accountant cannot perform a financial statement review engagement without performing analytical procedures
- *Analytical procedures* are “**evaluations of financial information** through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such **investigation**, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.”

Evaluations of financial information – analytical procedures will be used to understand/ test f/s relationships/ balances.

Investigation – involves a comparison of recorded amounts with expectations.

# Expectations

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Expectations are the accountant's predictions of recorded accounts or ratios. In performing analytical procedures, the accountant develops the expectation that any significant difference between the expected amount and the recorded amount indicates a possible misstatement.

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Analytical procedures are effective when the accountant develops expectations that can reasonably be expected to identify unexpected relationships.

Expectations are developed **BEFORE** comparing to recorded amount!

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An accountant develops expectations by identifying plausible relationships (such as a store's square footage and its retail sales) that, based on the accountant's understanding of the entity and of the industry in which it operates, the accountant can reasonably expect to exist. The accountant may select information from various sources to form expectations.

# Expectations

Prior period information is not an expectation unless it is adjusted for expected changes (unless the accountant expects current year amounts to approximate prior period amounts)

# Precision

The effectiveness of analytical procedures depends on their precision

- Precision is a measure of how close the accountant's expectation is to the correct amount
- In a review (limited assurance is obtained), the expectations need not be as precise as that in an audit (reasonable assurance)
- The precision of expectations is a way the accountant can address areas believed to have increased risks of material misstatement

# Phase 1: Expectation Formation

- Forming an expectation is the first – and most important – phase of the analytical procedure process
- The expectation is developed based on the accountant's understanding of the entity and the industry
- Inquire of management whether there have been any changes in the entity's business or the accounting principles/practices used

# Types of Expectation Methods

## Trend analysis

- This is the analysis of changes in an account balance over time.
- Simple trends typically compare the prior period's account balance to that of the current period.
- More sophisticated trend analyses encompass multiple periods.

# Types of Analytical Procedures

Trend analysis is most appropriate when the account or relationship is predictable (for example, sales in a stable environment).

- When the entity has experienced significant operating or accounting changes, trend analysis is less effective (unless the accountant considers those changes when performing the trend analysis).

## COMMON ANALYTICAL PROCEDURE

Compare income statement balances for current year to prior year, investigate all differences more than 5%



# Types of Analytical Procedures

## Ratio analysis

- The comparison of relationships between financial statement accounts (between two periods or over time), the comparison of an account with nonfinancial data (such as revenue per order or sales per square foot), or the comparison of relationships between entities in an industry (for example, gross-profit comparisons).
- Most appropriate when the relationship between accounts is predictable and stable (for example, the relationship between sales and A/R).

The AICPA Practice Aid, *Analytical Procedures in a Review Engagement* includes an appendix with a list of helpful ratios.

# Types of Analytical Procedures

## Reasonableness testing

- The analysis of account balances or changes in account balances within an accounting period that involves the development of an expectation based on financial data or nonfinancial data, or both.
  - For example, an expectation for hotel revenues could be developed using the average occupancy rate, the average rate for all rooms, or rate by category or class of room.

# Types of Analytical Procedures

## Reasonableness testing

- Another example is to use the number of employees hired and terminated, the timing of pay adjustments, and the effect of vacation and sick days to predict the change in payroll expense from the previous year to the current balance within a narrow dollar range.

# Types of Analytical Procedures

## Regression analysis

- More commonly used in financial statement audits, regression analysis is the use of statistical models to quantify the accountant's expectation in dollar terms, with measurable risk and precision.
- In many cases, the entity has developed analytical procedures or internal models, or both, that it uses to monitor and evaluate its business and performance.

# Common and Effective Financial Statement Review Expectation

Combination of trend analysis and reasonableness tests

- Modify prior period data for operating or accounting changes
- For example:
  - Testing payroll expense
    - Modify prior period payroll expense based on changes in headcount, average pay rate changes, and bonus pools
    - Use of disaggregation further increases precision

## Phase 2: Identification

The accountant considers whether the analytical procedures have identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount

- Identification begins by comparing the accountant's expected value with the recorded amount. Because the accountant developed an expectation that allowed for the acceptance of up to a particular amount of difference without further explanation, the accountant then compares any unexpected differences to the threshold.

## Phase 3: Inquiry/Investigation

- The accountant is required to investigate inconsistencies by inquiring of management
  - Consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the entity's business
  - May want to also inquire of others within the entity to corroborate management's responses – especially in higher risk areas
  - If management's responses are unreasonable or are inconsistent with results of other review procedures or the accountant's knowledge, perform other procedures.
    - Other procedures may be similar to those performed in an audit.

## Phase 4: Evaluation

- Consider the difference between the expected value and the recorded amount
- If a reasonable expectation cannot be obtained, consider the impact of uncorrected misstatements identified during the review

# Documentation

With respect to the performance of analytical procedures, it is expected that the accountant will, at a minimum, document the following:

- a) The expectation and the factors considered in its development when that expectation and those factors are not otherwise readily determinable from the documentation.
- b) Results of the comparison of the recorded amounts, or ratios developed from recorded amounts, with the expectations.

# Documentation

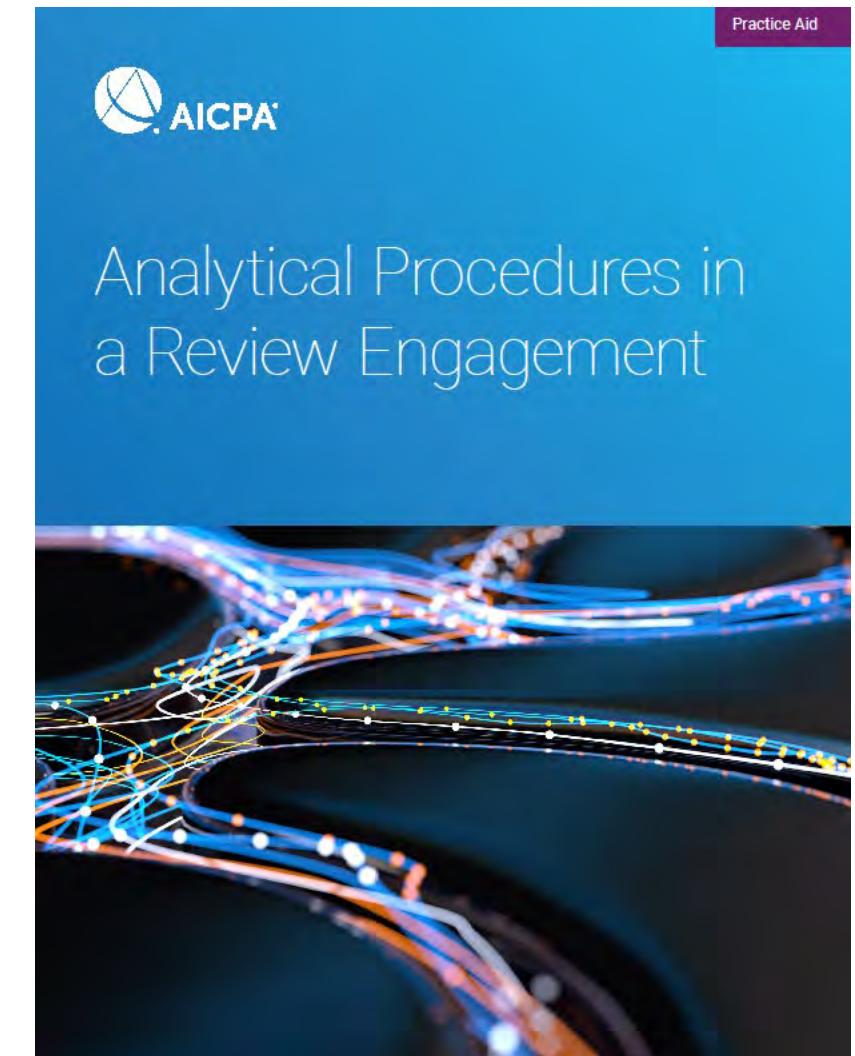
c) Any inquiries of management and other procedures performed relating to the investigation of fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount and the results of such procedures. The documentation of inquiries of management are expected to include management's responses to the accountant's inquiries and the accountant's determination about whether management's responses appear reasonable

# AICPA Practice Aid, *Analytical Procedures in a Review Engagement*

The Audit and Attest Standards staff, with input from the AICPA Accounting and Review Services Committee, developed the Practice Aid, *Analytical Procedures in a Review Engagement*, to illustrate and demonstrate the importance of two of the most misunderstood concepts when applying analytical procedures in a review engagement:

- 1.forming expectations, and
- 2.considering the precision of the expectation.

These concepts are particularly important because the results of the accountant's analytical procedures substantially contribute to the information the accountant uses to provide a reasonable basis for obtaining limited assurance. Understanding the precision of the expectation is vital because limited assurance — while less than the reasonable assurance obtained in an audit — is a meaningful level of assurance that is significantly more than minimal. This Practice Aid is expected to improve the quality of review engagements performed



# Attestation Standards Update

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# SSAE No. 23, Amendments to the Attestation Standards for Issuance of AICPA Standards on Quality Management

- Primarily amends AT-C section 105, *Concepts Common to All Attestation Engagements*
  - Changes to conform with SQMS No. 1
  - Additional revisions with respect to the use of *other practitioners*
    - Deletion of the defined term *other practitioner* and replaced with 2 new terms – *participating practitioner* and *referred-to practitioner*.
    - Differentiates the requirements related to other practitioners who are part of the *engagement team (participating practitioner)* and those that are not part of the *engagement team (referred-to practitioner)*.
    - The performance and reporting requirements are also revised to differentiate between the types of other practitioner.

# Attestation Standards Exposure Draft – Scope Limitations in a Review Engagement

Part of larger Attestation project; exposed now for public comment to be responsive to a potential practice issue related to recent regulations for sustainability reporting and the performance of review engagements over such reporting.

Would amend AT-C section 210 to permit issuance of a qualified or disclaimer of conclusion in a review engagement when a scope limitation exists.

Comment letter due date: May 30, 2025

## Attestation Standards Upcoming EDs

Part of larger Attestation project; exposed now for public comment to be responsive to a potential practice issue related to recent regulations for sustainability reporting and the performance of review engagements over such reporting.

Would amend AT-C section 210 to permit issuance of a qualified or disclaimer of conclusion in a review engagement when a scope limitation exists.

Comment letter due date: May 30, 2025

# Attestation Standards Upcoming EDs

Ongoing project to revise baseline attestation standards (examinations and reviews) and develop new sustainability subject matter section to address practice issues in performing attestation/ESG engagements and consider convergence with ISSA 5000

Expected ED vote by the ASB: Q1 2026

**AT-C Sections  
105, 205 and 210  
and new subject  
matter section**

# Potential Future Areas of Revision of Review Requirements

- The Auditing Standards Board is currently considering revisions to AT-C section 210, *Review Engagements*
  - Addresses reviews of subject matter other than historical financial information
- The Task Force includes the current Chair of ARSC, a past Chair of ARSC, and an ASB member who spent the last 3 years on ARSC. The ARSC staff liaison staffs that Task Force
- ARSC will consider whether consistency between AR-C section 90 and AT-C section 210 is important.

## Potential revisions:

- **Allowing reporting when the accountant encounters a scope limitation.**
- **Reporting on other information.**

# ARSC – Current Project

- Participating in ASB's project on the attestation standards
- Consider revisions to AR-C section 90 for consistency with proposed revisions to standards for attestation reviews
- Update the AR-C section 70 decision tree for SSARS No. 27

# Resources

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# Quality Management Resources

<https://www.aicpa-cima.com/auditqm>

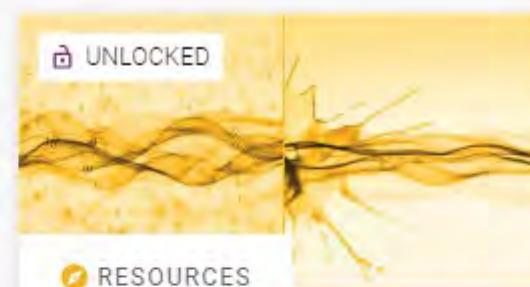


RESOURCES

ASB project: quality management

May 25, 2022

AICPA



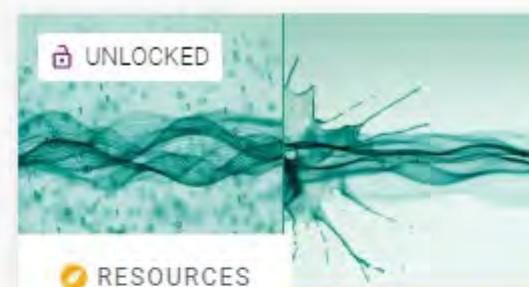
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RESOURCES

Crosswalk between SQMS No. 1 and SQCS No. 8, as amended

Jun 01, 2022

560.8 KB



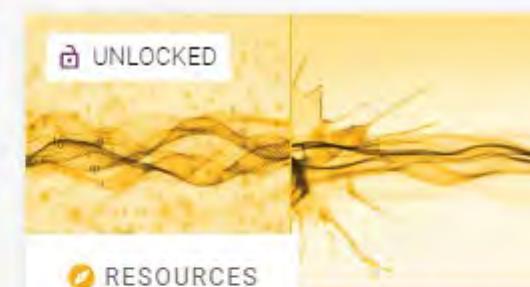
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RESOURCES

Executive summary of SQMS Nos. 1 – 2 and SAS No. 146

Jun 01, 2022

547 KB



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RESOURCES

SQMS Nos. 1 – 2, SAS No. 146, and SSARS No. 26 At a Glance

Jun 01, 2022

173.3 KB



# QUESTIONS?

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