



EXPOSURE DRAFT

PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

APPLICABILITY OF AR-C SECTION 70 TO FINANCIAL STATEMENTS PREPARED AS PART OF A CONSULTING SERVICES ENGAGEMENT

(Amends Statement on Standards for Accounting and Review Services [SSARS] No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification, as amended, section 70, Preparation of Financial Statements [AICPA, Professional Standards, AR-C sec. 70])

September 23, 2024

Comments are requested by December 20, 2024

Prepared by the Accounting and Review Services Committee for comment from persons interested in preparation, compilation, review, and reporting issues.



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Explanatory Memorandum

Introduction

This memorandum provides background to the proposed Statement on Standards for Accounting and Review Services (SSARS) *Applicability of AR-C Section 70 to Financial Statements Prepared as Part of a Consulting Services Engagement* (hereinafter referred to as *the proposed SSARS* for purposes of this memorandum). If issued as final, the proposed SSARS will amend SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*, as amended, AR-C section 70, *Preparation of Financial Statements*.¹

Background

The Mission of the AICPA Accounting and Review Services Committee

The mission of the AICPA Accounting and Review Services Committee (ARSC) is to serve the public interest by developing, updating, and communicating comprehensive high-quality SSARSs and practice guidance that enable accountants to provide high-quality, objective SSARSs services in an effective and efficient manner.

ARSC accomplishes its mission by (1) developing SSARSs that inspire public trust and (2) responding in a timely manner to the need for guidance and communicating it clearly to the profession and to users.

Why ARSC Has Developed and Issued This Exposure Draft of the Proposed SSARS

Firms of various sizes, from sole practitioners to large international firms, are engaged to perform outsourced accounting services for their clients. Traditionally, such services were referred to as *controllership services* and included activities such as performing the monthly close and preparing financial statements for the client. Over the past several years the concept of controllership services has evolved in practice to what is often referred to as *client advisory services* (CAS) in which the accountant performs a range of advisory services for the client and may include controllership services. In a CAS engagement, the accountant assumes certain management responsibilities, which may include taking responsibility for the financial statements. CAS practitioners often state that they *are* the client's internal accounting department.

Although some CAS practitioners subject the portion of the service that includes the preparation of financial statements to AR-C section 70, other CAS practitioners perform the entirety of such services as a consulting service in accordance with CS section 100, *Consulting Services: Definitions and Standards*.² CS section 100 states that the general professional standards of professional competence, due professional care, planning and supervision, and sufficient relevant

¹ All AR-C sections can be found in AICPA *Professional Standards*.

² All CS sections can be found in AICPA *Professional Standards*.

data apply to consulting services.³ CS section 100 further states that the additional general standards of client interest, understanding with the client, and communication with the client are promulgated to address the distinctive nature of consulting services in which the understanding with the client may establish valid limitations on the practitioner's performance of services.⁴

If the financial statement portion of the engagement is performed in accordance with AR-C section 70, the quality management requirements introduced by SSARS No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*, and codified in AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*, apply to the relevant service. However, engagements performed in accordance with CS section 100 are not required to be subjected to the firm's system of quality management because such engagements are outside of the firm's accounting and auditing practice. QM section 10, *A Firm's System of Quality Management*,⁵ defines *accounting and auditing practice* as "a practice that performs...audit, attestation, review, compilation, and any other services for which standards have been promulgated by the AICPA Auditing Standards Board (ASB) or ARSC..."⁶ Additionally, if such engagements are not performed in accordance with AR-C section 70, the accountant's firm may not be required to enroll in a peer review program.

ARSC considered the issues and concluded that CS section 100 provides the appropriate safeguards regarding the CAS practitioner's association with financial statements that the CAS practitioner prepared as part of a consulting services engagement as well as the CAS practitioner's responsibility to prepare such financial statements with professional competence and due professional care. ARSC believes that the public interest would not be adversely affected if a CAS engagement that includes the preparation of financial statements for the client's use is performed in accordance with CS section 100 instead of AR-C section 70 because

- a. services performed in accordance with CS section 100 and services performed in accordance with AR-C section 70 are both nonattest services in which no opinion, conclusion, or any form of assurance is provided, and
- b. the safeguards included in CS section 100 would minimize the risk that a user would be misled by the CAS practitioner's association with the financial statements that the CAS practitioner prepared as part of a CAS service.

Request for Comment

1. Do respondents believe that it is in the public interest to explicitly exclude financial statements prepared as part of a consulting services engagement performed in accordance with CS section 100 from those engagements for which AR-C section 70 is required to be applied? Please provide your reasons for your position.

³ Paragraph .06 of CS section 100, *Consulting Services: Definitions and Standards*.

⁴ Paragraph .07 of CS section 100.

⁵ All QM sections can be found in AICPA *Professional Standards*.

⁶ Paragraph .17 of QM section 10, *A Firm's System of Quality Management*.

Effective Date

If issued as final, the proposed SSARS will be effective for the preparation of financial statements for periods ending on or after December 15, 2026. Early implementation would be permitted.

Request for Comment

2. Do respondents believe that the proposed effective date of the SSARS is appropriate? If not, why not?

Explanation of Significant Proposed Revisions

Applicability of AR-C Section 70

ARSC proposes revisions to paragraph .01 of AR-C section 70 as follows:

.01 This section applies when an accountant in public practice is engaged to prepare financial statements or prospective financial information. ~~(Ref: par. .A1-.A2)~~ ***Although not required, this*** ~~this~~ section may also be applied, adapted as appropriate in the circumstances, to the preparation of other historical financial information. ~~(Ref: par. .A3)~~ This section ~~does not apply~~ ***is not required to be applied, but application is not precluded***, when an accountant prepares financial statements or prospective financial information **(Ref: par. .A1-.A3)**

- a.** ~~and is engaged to perform an audit, review, or compilation of those financial statements,~~
- b.** ~~as part of a consulting services engagement performed in accordance with CS section 100, Consulting Services: Definitions and Standards. (Ref: par. .A4)~~
- c.** ~~solely for submission to taxing authorities,~~
- d.** ~~for inclusion in written personal financial plans prepared by the accountant,~~
- e.** ~~in conjunction with litigation services that involve pending or potential legal or regulatory proceedings,~~~~or~~
- f.** ~~in conjunction with business valuation services.~~^{fn1}

^{fn 1} [Footnote omitted for purposes of this proposed SSARS.]

The proposed new application paragraphs are as follows:

.A4 Consulting services differ fundamentally from the CPA's function of attesting to the assertions of other parties. In a consulting service, the practitioner develops the findings, conclusions, and recommendations presented. The nature and scope of work

is determined solely by agreement between the practitioner and the client. Generally, the work is performed only for the use and benefit of the client.^{fn2}

^{fn2} Paragraph .02 of CS section 100, Consulting Services: Definitions and Standards.

The proposed revision would make explicit that the accountant is not required to apply AR-C section 70 when financial statements are prepared as part of a consulting services engagement performed in accordance with CS section 100. Such engagements would continue to be performed in accordance with *Professional Standards*.

Request for Comment

3. Do respondents believe that the proposed revisions to paragraph .01 and the introduction of new application paragraph .A4 are appropriate? If not, respondents are asked to state their reasons.

Guide for Respondents

ARSC requests that respondents submit their comments [electronically](#). However, respondents may also address comments to commentletters@aicpa-cima.com. Responses submitted via e-mail should be submitted in Word format and received by December 20, 2024. Responses will be posted to the AICPA website as a PDF.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for ARSC to be made aware of this view, as well.

Comments will become part of the public record of the AICPA and will be available on the AICPA's website after December 20, 2024, until a final standard is issued.

Consideration of comments received may result in modification of the proposals in this exposure draft before they are issued in final form.

Comment Period

The comment period for this exposure draft ends on December 20, 2024.

**Accounting and Review Services Committee
(2024–2025)**

Michael A. Westervelt, *Chair*
Jami Blake
David Duckwitz
Alison Houck

Douglas C. Koval
Sarah McConnell
Georgia Salinas

AICPA Staff

| | |
|--|--|
| Jennifer Burns <i>Chief Auditor Professional Standards and Services</i> | Michael P. Glynn <i>Associate Director Audit and Attest Standards — Public Accounting</i> |
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Amendment to SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*, as Amended, Section 70, *Preparation of Financial Statements* (AICPA, *Professional Standards*, AR-C sec. 70)

1. This amendment is effective for the preparation of financial statements for periods ending on or after December 15, 2026. Early implementation is permitted.

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strikethrough~~.)

Introduction

Scope of This Section

.01 This section applies when an accountant in public practice is engaged to prepare financial statements or prospective financial information. (~~Ref: par. .A1–.A2~~) ***Although not required***, ~~This~~ ***this*** section may also be applied, adapted as appropriate in the circumstances, to the preparation of other historical financial information. (~~Ref: par. .A3~~) This section ~~does not apply~~ ***is not required to be applied, but application is not precluded***, when an accountant prepares financial statements or prospective financial information (***Ref: par. .A1–.A3***)

- a. ~~and is engaged to perform an audit, review, or compilation of those financial statements,~~
- b. ***as part of a consulting services engagement performed in accordance with CS section 100, Consulting Services: Definitions and Standards. (Ref: par. .A4)***
- c. ~~solely for submission to taxing authorities,~~
- d. ~~for inclusion in written personal financial plans prepared by the accountant,~~
- e. ~~in conjunction with litigation services that involve pending or potential legal or regulatory proceedings,~~~~or~~
- f. ~~in conjunction with business valuation services.~~^{fn1}

^{fn1} [Footnote omitted for purposes of this proposed SSARS.]

.02 The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this section) is determined based on services the client requests the accountant to perform and ~~requires~~ the accountant's ~~to apply~~ professional judgment. (Ref: par. ~~.A4~~**.A5**)

[No amendment to paragraphs .03–.A3.]

Application and Other Explanatory Material

Scope of This Section (Ref: par. .01–.02)

...

.A4 ***Consulting services differ fundamentally from the CPA's function of attesting to the assertions of other parties. In a consulting service, the practitioner develops the findings,***

conclusions, and recommendations presented. The nature and scope of work is determined solely by agreement between the practitioner and the client. Generally, the work is performed only for the use and benefit of the client.^{fn2}

^{fn2} *Paragraph .02 of CS section 100, Consulting Services: Definitions and Standards.*

[No amendments to former paragraphs .A4–.A26, which are renumbered as paragraphs .A5–.A27. No further amendment to AR-C section 70.]