



THE OHIO  
SOCIETY  
OF CPAs

May 14, 2014  
Youngstown State University

## YSU CPE Day

James P. Gero, CPA  
Hobe & Lucas CPAs, Inc.

### Getting Engaged: Starting Off on the Right Foot with Your Clients

Session #007

#### Upcoming Events

##### **Cleveland Spring CPE Conference – May 23, 2014– Course #46375**

*A whole new CPE season starts with the beginning of spring, and our annual Cleveland Spring CPE Day Conference is a fantastic way to get all the latest news you can use on a variety of topics important to you and your profession. There is so much happening with new regulations, the new health care law and the competitive environment continues to be a strain on all businesses, and with the ability to get information from virtually anywhere, it's hard trying to cut through it all to get to what you need to know. Join us at the Cleveland Spring CPE Day conference and let us help make that easier by providing you with the information you need, from the experts you know, and the industry leaders you trust. Plus it's a great time to network with your peers and satisfy your three-hour ethics requirement. Being close to home with great topics and great speakers this event has it all.*

##### **Akron Spring CPE Day– June 27, 2014 – Course #46391**

*Join OSCPA for one of the most popular CPE events in Northeast Ohio. The 2014 Akron Spring CPE Day conference is coming soon and it's the place to be to get information on just about anything, anytime from a variety of sources. At this conference we're going to help make that process easier by providing you with the information you need on the topics important to you and your industry. This is a great opportunity to learn from the experts and industry leaders you know and trust, plus you can satisfy your three-hour ethics requirement and network with your peers.*

**· Be sure to visit the Events Catalog at [store.ohioscpa.com](http://store.ohioscpa.com) for more continuing education opportunities.**

#### NOTICE TO READERS:

These course materials have been prepared solely for continuing education purposes. Since the subject matter has not been considered and acted upon by senior technical committees of The Ohio Society of CPAs, it does not represent an official position of the Society

**GETTING ENGAGED: STARTING  
OFF ON THE RIGHT FOOT  
WITH YOUR CLIENTS**

**James P. Gero CPA  
Hobe & Lucas CPAs Inc.  
[jimg@hobe.com](mailto:jimg@hobe.com)  
216-524-8900**

## WHY ENGAGEMENT LETTERS?

- ▶ To protect yourself:
  - Covers nature and limitations of service and description of report to be issued, which may protect you in litigation or disputes
  - Forces you to think about how to conduct the engagement – helps price it appropriately and avoid staff doing more than you intended
  - May reduce your malpractice insurance cost

3

## WHY ENGAGEMENT LETTERS?

- ▶ To help your client:
  - Lets you explain what you are and are not doing (“I want to introduce you to our auditor...”)
  - Lets your client determine the suitability of the service for their needs
  - Lets you identify additional services needed

4

## ARE ENGAGEMENT LETTERS REQUIRED?

- ▶ Technically, no – except for “SSARS 8,” where it functions as a report
- ▶ SSARS requires written *communication* of matters, which “should be communicated in the form of an engagement letter”
- ▶ Client not required to sign the engagement letter (except SSARS 8) – but why *wouldn't* you want them to do so?

5

## CAN YOU USE CONTINUING ENGAGEMENT LETTERS?

- ▶ Technically, yes – but there are restrictions:
  - No change in nature of engagement (revised standards, level of service, supplemental data)
  - No change in client (management, accounting system, nature of operations, etc.)
  - No change in firm (new engagement partner, new staff)
- ▶ Document your “update” each year

6

## HOW MANY ENGAGEMENT LETTERS ARE NEEDED?

- ▶ Consider whether length of single letter impedes genuine communication with client
- ▶ Generally, if you'll be under a second set of significant standards, consider issuing two cross-referenced engagement letters
  - Preparation of tax returns and statements
  - SSARS and SSAE (unexpired budget)

7

## HOW MANY ENGAGEMENT LETTERS ARE NEEDED?

- ▶ I'll be compiling monthly statements, without any adjustments (or limited adjustments), for management use only – then compiling quarterly and year-end statements for the bank at year end
- ▶ Can be done with a single engagement letter or you could issue two letters

8

# THE STANDARD ENGAGEMENT LETTER

9

## ELEMENTS OF A SSARS ENGAGEMENT LETTER

- ▶ SSARS requires the letter include:
  - Objectives of the engagement
  - Management's responsibilities
  - Accountant's responsibilities
  - Limitations of the engagement
  - "SSARS 8" limitations, if applicable
- ▶ "But wait, there's more..."

10

## ELEMENTS OF A SSARS ENGAGEMENT LETTER

- ▶ SQCS 8 (QC 10.33) requires communication of the identity and role of the engagement partner (signing letter not usually enough)
- ▶ Ethics Ruling 112 (ET 191.224–.225) requires that clients be informed of outsourcing to third-party providers
- ▶ These are not included in SSARS examples

11

## Objective of the engagement

- ▶ **Compilation:** To assist management in presenting financial information in the form of financial statements (no assurance)
- ▶ **Review:** Obtain limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework

12

## Management Responsibilities

- ▶ Preparation and fair presentation of financial statements in accordance with applicable financial reporting framework
- ▶ Designing, implementing, and maintaining internal control over preparation and fair presentation of financial statements
- ▶ Preventing and detecting fraud

13

## Management Responsibilities

- ▶ Identifying and complying with laws and regulations
- ▶ Making all financial records and related information available to accountant
- ▶ Providing the accountant with a representation letter at conclusion of engagement (Reviews only)

14



## Accountant's responsibilities

- ▶ Conduct the engagement in accordance with SSARS (you're not undertaking to comply with other standards, unless referenced by SSARS)
- ▶ Inform management of material errors, fraud, or illegal acts (unless inconsequential) IF they come to your attention (no requirement to search)

15

## Limitations of the engagement

- ▶ Compilation differs from an audit or review – no procedures performed – existence and effects of independence impairments
- ▶ Review differs from an audit – analytical procedures and inquiries only
- ▶ No opinion on financial statements
- ▶ No reliance for errors, fraud, or illegal acts

16

## “SSARS 8” Limitations

- ▶ Acknowledgment of management’s representation and agreement that statements will not be used by third parties
- ▶ “Acknowledgment” means that engagement letter must be signed by client

17

## Other Matters

- ▶ If known, consider including:
  - Material departures from financial reporting framework (effects may not be disclosed)
  - Omission of substantially all disclosures (compilation only)
  - Reference to supplementary information

18

## ELEMENTS OF A SSARS ENGAGEMENT LETTER

- ▶ SSARS suggest engagement letter can also cover:
  - Fee and billing arrangements
  - Liability limitations/arbitration or mediation
  - Access to working papers by others
  - Additional services related to regulatory requirements

19

## BEYOND THE STANDARD ENGAGEMENT LETTER

20

## WHAT ELSE CAN YOU DO?

- ▶ Define what you *won't* do
- ▶ Describe intentional departures/omissions
- ▶ Document non-attest services
- ▶ Describe supplemental information
- ▶ Define additional procedures
- ▶ Restrict use or distribution

21

## Define what you *won't* do

- ▶ “Common expectation” that services will include tax preparation
  - Federal, state, local
  - Income, excise, payroll, pension plan
  - Business and personal (and relatives)
- ▶ You can include the terms of services here, or refer to separate engagement letters
- ▶ You can specifically exclude some or all

22

## Describe intentional departures or omissions

- ▶ Responsibility of management for predetermined decisions that will result in a modification to the report, such as:
  - Omission of substantially all disclosures
  - Omission of cash flow statement
  - Decision not to consolidate VIEs
  - Omission of Required Supplemental Information

23

## Non-attest Services

- ▶ Non-attest services are anything that's not an attest (SSARS, SAS, SSAE) service
  - Financial statement preparation
  - Bookkeeping/adjustments/bank recs
  - Tax preparation
  - Payroll services
  - benefit plan administration
  - investment advice/management

24

## Non-attest Services

- ▶ How can you impair your independence when performing non-attest services?
  - By being part of management (stockholder, partner, director, officer, or employee)
  - By performing services in a way that has you making management decisions
  - By having a client that is unwilling or unable to take responsibility for the services

25

## Non-attest Services

After determining your independence, you must do one of two things:

- If independent, you must establish *and document* an understanding with the client about your mutual responsibilities
- Can be done in engagement letter, memo, or use of a practice aid (PPC has a checklist)

26

## Non-attest Services

If you determine you are not independent:

- You're not required to document anything
- Must describe the effects of impairment in the engagement letter (will be included in report)
- Must include disclaimer in report

27

## Supplemental Information

- ▶ Specify what additional schedules are included
- ▶ Specify whether the procedures used in the financial reporting engagement will also be applied to supplemental data
- ▶ Determine whether additional standards must be complied with (budgets, etc.)

28

## Define Additional Procedures

- ▶ Sometimes, client may need assistance that doesn't fit into the financial reporting or non-attest engagement:
  - Confirmation of receivables
  - Inventory observation
  - Calculation of ratios or other amounts
  - Agreed-upon procedures (receipts or disbursements)

29

## Restrict Use or Distribution

- ▶ "SSARS 8" restriction is defined
- ▶ AUP restricted by standards
- ▶ Other restrictions follow from engagement:
  - Pro Forma, Prospective almost always restricted
  - Due diligence in business sales, loan applications, litigation support, etc.

30



## ELEMENTS, PRO FORMA, AND PROSPECTIVE

- ▶ Elements – partial presentations, not a financial statement; SSARS applies
- ▶ Pro Forma: “what if” applied to historical information
  - Compiled Pro Forma: SSARS applies
  - Examined or reviewed Pro Forma: SSAE applies

31

## ELEMENTS, PRO FORMA, AND PROSPECTIVE

- ▶ Prospective: the future “if” certain things (assumptions) happen
  - Performed under SSAE, not SSARS
  - Should consider a separate letter, but can be done in a single letter
- ▶ The most common example: presentation of annual budget with interim historical statements

32