

## **Notes to Users:**

These are comments that you may use for FFCs. The list is by no means all-inclusive, but you may find these samples useful as they do represent common findings in engagement reviews.

1. The comments are generally written for GAAP based financial statements, so modifications may be necessary if the financial statements you are reviewing use an OCBOA.
2. Some recommendations are written as though there is only one owner in the firm as this is the typical firm that requests a CART review. Modifications to the wording may be necessary, depending on the size of the firm. For instance, you might substitute “engagement partner” for “firm owner” if the firm has two or more partners, or even use the more generic term “firm”, especially if the firm has some professional staff.
3. The terms “Comment” and “Recommendation” are just to help divide up the various paragraphs in this practice aid; they will not be used in the FFCs themselves.
4. If the term “Deficiency” precedes a paragraph, it means that a material departure from GAAP or SSARS has been noted. These items generally would result in a “Pass with deficiencies” or “Fail” report, and the “Deficiency” and “Recommendation” would be included in the peer review report and not in an FFC.
5. Sometimes comments contain more than one problem as we often group similar MFCs into the same FFC (i.e. all reporting items might be grouped together). Obviously, you will tailor the sample comments to fit the problems noted in the review you are working on.
6. A few of the samples represent highly unusual situations. While you may never encounter these situations in your reviews, these samples nevertheless give you ideas on how to craft comments and recommendations when unusual situations do arise.

## **REPORTING**

### **Interim periods**

Comment – Our review identified an instance in the engagements selected for review where the accountant’s report did not contain all reporting elements required by professional standards. Specifically, the report did not mention the interim period presented in the statement of income.

Recommendation – We recommend that the firm revise its report to conform to professional standards governing reporting on interim periods.

### **Titles**

Comment – The titles of the financial statements referred to in the accountant’s report did not match the titles on the financial statements themselves. Specifically, the accountant’s report referred to a statement of retained earnings, when the statement presented was a statement of changes in fund balances. Also, the title “statement of income” was used in the report, but the actual statement was titled “revenue and expenses”.

Recommendation – Before issuance, the firm’s owner should review the reports and the financial statements to make certain a) the titles are appropriate and b) the titles in the report match those in the financial statements.

### **Supplementary info**

Comment – Our review identified an instance in the engagement selected for review where the accountant’s report did not contain all reporting elements required by professional standards. Specifically, the report did not indicate the degree of responsibility taken for supplementary information.

Recommendation – We recommend that the firm revise its reports to conform to professional standards governing reporting on supplemental data presented with the basic financial statements.

Comment – During our review of the one of the engagements submitted by the firm, we noted that the firm did not indicate the level of responsibility that it was taking for supplemental data presented with the basic financial statements.

Recommendation - The firm should revise the standard reports used by the firm to conform to professional standards governing reporting on supplemental data presented with basic financial statements.

### **Inconsistencies**

Comment – We noted an instance where the accountant’s report noted that the statement of cash flows had been omitted, when the statement was actually present.

Recommendation – The firm’s owner should carefully review the accountant’s report and statements before issuance to make certain that each financial statement is appropriately referenced in the accountant’s report.

## **OCBOA**

**Comment** – We noted that the accountant’s report for compiled financial statements, prepared on the cash basis of accounting and omitting substantially all disclosures, indicated the basis of accounting but did not include the companion disclosure that “the cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles,” as required by Statements of Standards for Accounting and Review Services. In addition the paragraph that described the omission of disclosures contained language that is normally associated with financial statements prepared under generally accepted accounting principles (GAAP).

**Recommendation** - The firm should review its standard accountant’s reports for engagements to compile financial statements prepared on another comprehensive basis of accounting for which substantially all disclosure are omitted. The reports should then be modified, as necessary, to include the disclosure that the basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles and use language appropriate to the cash basis when describing the omission of disclosures.

**Comment** – During our review, we noted instances where the accountant’s report on financial statements prepared on the income tax basis of accounting mentioned a statement of cash flows that was not presented.

**Recommendation** - The engagement partner should carefully review the accountant’s report and statements before issuance to make certain that each financial statement is appropriately referenced in the accountant’s report.

## **GAAP departure**

**Comment** – On an engagement submitted for review, we noted that, while a departure from GAAP had been properly identified and described, the second paragraph of the report did not contain the following sentence: “However, I did become aware of departures from generally accepted accounting principles that are described in the following paragraphs.”

**Recommendation** - The firm should review its standard accountant’s reports for engagements to compile financial statements prepared with GAAP departures. The reports should then be modified, as necessary, to include a sentence that alerts the reader of the GAAP departure.

### **Material Departures from SSARS were noted**

Deficiency - On one of the compilation engagements selected for review, the financial statements were prepared using the income tax basis of accounting, but the accountant's report did not disclose the use of a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). In addition, the titles of the financial statements were those normally associated with GAAP presentations.

Recommendation - We recommend that the firm review its other compilation engagements and identify those prepared using a comprehensive basis of accounting other than generally accepted accounting principles. For those engagements, the firm should modify the accountant's report to describe the basis of accounting and state that it is a comprehensive basis of accounting other than generally accepted accounting principles. The firm should also make certain that the titles of the financial statements reflect the use of a comprehensive basis of accounting other than generally accepted accounting principles.

Deficiency – In one of the compilation engagements reviewed, we noted that the accountant's report did not disclose that a statement of cash flows had been omitted for one of the periods in the financial statements that presented financial position and comparative results of operations.

Recommendation - We recommend that the firm's owner the requirements for presenting statements of cash flows when comparative results of operations are presented in the basic financial statements. In addition, this matter should be stressed during the engagement review of financial statements compiled by the firm.

### **DISCLOSURE**

Comment - Our review identified instances in the engagement selected for review where the firm should consider the need for additional financial statement disclosures, especially in the area of \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_. *(Note to reviewers: Depending on the number and/or significance of the missing disclosures, this comment might be elevated to a deficiency).*

Recommendation – The firm's owner should review the professional standards relating to the items noted above, focusing on disclosure requirements. Then, the owner should carefully review the financial statements before issuance to make certain that all required disclosures are present.

## **PRESENTATION**

### **PFS**

**Deficiency** – On a personal financial statement engagement, the provision for estimated income taxes on differences between estimated current values of assets and their tax bases was not presented and the required disclosures regarding income taxes were also missing and the accountant's report was not modified to disclose these departures from generally accepted accounting principles (GAAP).

**Recommendation**-We recommend the firm review the standards relating to personal financial statements, focusing on the presentation and disclosures for estimated income taxes and make the appropriate changes to their personal financial statement engagements. If the client declines to add the appropriate presentation and disclosure items, the accountant's report should be modified to disclose a departure from GAAP.

### **CIRA**

**Deficiency** - On the engagement reviewed, we noted that the financial statements did not contain the supplementary information required by the AICPA for CIRA engagements and the accountant's report was not modified to disclose this departure from generally accepted accounting principles (GAAP).

**Recommendation** - The firm's owner should first review the standards relating to CIRA engagements, then review the CIRA engagements performed by the firm and make certain that the required supplementary information has been presented or that the accountant's report has been modified to disclose the GAAP departure.

### **Non-Profit**

**Deficiencies**-On a non-profit engagement submitted for review, temporarily restricted assets were presented as a negative balance and the amounts released from restriction did not agree between the unrestricted and temporarily restricted categories. Professional standards require that when temporarily restricted assets are released from restriction, they are transferred to unrestricted assets, so the balance in temporarily restricted assets would never be less than zero.

**Recommendation**-We recommend the firm review the standards relating the format for non-profit financial statements and make the appropriate changes to their non-profit financial statement engagements.

### **Other presentation items**

Comment – We noted an instance where a bank overdraft was presented as a negative current asset rather than classified as a current liability. *(Note to reviewers: Depending on significance of negative amount, this might be elevated to a deficiency. For instance, if total current assets are negative, then a deficiency is probably the appropriate route to take.)*

Recommendation – The firm’s owner should carefully review the financial statements before issuance to make certain that assets and liabilities are presented in the appropriate categories.

Comment – We noted an instance where the entire note payable was presented as a long-term liability when a portion should have been classified as a current liability. *(Note to reviewers: This is another area where the significance of the item might elevate it to a deficiency.)*

Recommendation – The firm’s owner should carefully review the financial statements before issuance to make certain that assets and liabilities are presented in the appropriate categories.

Comment – We noted that changes in the current portion of notes payable were presented in the operating section, rather than the financing section, of the statement of cash flows.

Recommendation – The firm should carefully review professional standards relating to the statement of cash flows and then make certain that all such statements conform to those requirements.

Comment - We noted that non-cash investing and financing activities were presented within the body of the statement of cash flows, rather than as supplemental information.

Recommendation – The firm should carefully review professional standards relating to the statement of cash flows and then make certain that all such statements conform to those requirements.

Comment – We noted that changes in the current portion of notes payable were presented in the operating section, rather than the financing section, of the statement of cash flows.

Recommendation – The firm should carefully review professional standards relating to the statement of cash flows and then make certain that all such statements conform to those requirements.

Comment – During our review, we noted areas where the financial statement presentation did not conform to professional standards. A change in accounting principle was captioned correctly, but also referred to as an extraordinary item. Also, the change in accounting principle and a prior period adjustment were presented as separate line items on the statement of cash flows. Professional standards require that the beginning balance sheet be restated to include changes in principle and prior period adjustments before computing the statement of cash flows.

Recommendation – The firm’s owner should review professional standards concerning a change in accounting principle and prior period adjustments and their effect on the statement of cash flows.

Comment – During our review, we noted an area where the financial statement presentation did not conform to professional standards. Organization costs were presented on the balance sheet, but are no longer allowed to be capitalized by generally accepted accounting principles.

Recommendation – The firm’s owner should review professional standards concerning organization costs and make certain that financial statements conform to these standards.

Comment – During my review, I noted an area where the financial statement presentation did not conform to professional standards. Goodwill was still being amortized, which is no longer allowed by generally accepted accounting principles.

Recommendation – The firm’s owner should review professional standards concerning goodwill and make certain that financial statements conform to these standards.

Alternate recommendation - The firm will discuss with its client the use of the income tax basis for the preparation of financial statements as goodwill amortization is still allowed for tax purposes. If the income tax basis is not appropriate for this client, then the accountant’s report will be modified to disclose the departure from generally accepted accounting principles.

Comment – During our review, we noted an instance where treasury stock was presented on the balance sheet of a California corporation. California law requires that repurchased shares be treated as unissued.

Recommendation - The firm’s owner should review California law concerning treasury stock and make certain that financial statements conform to state law.

Comment – During our review, we noted some instances in computer generated financial statements where there were errors in formatting. Certain balance sheet items were bracketed when brackets were not appropriate and certain accounts had not been properly assigned to the supplementary schedule. These formatting errors resulted in inconsistencies within the financial statements. Specifically, the balance sheet did not foot to the subtotals (though the subtotals were correct) and information within the income statement did not tie out to the supplementary schedule. In addition to the formatting errors, we noted that net income per the income statement did not tie to the net income amount used to reconcile retained earnings because the client had inadvertently made an entry directly to retained earnings. *(Note to reviewers: Typically typos and formatting issues are “exit conference” items. However, sometimes there are so many formatting issues that an FFC will be appropriate.)*

Recommendation – We recommend that the firm’s owner review the computer formatting for the financial statements and make corrections as necessary so that information within the financial statements and supplementary is consistent. We also recommend that the firm’s owner perform a “cold” review of reports and financial statements prior to issuance.

Comment – On the engagements selected for review, selected footnotes were not properly labeled as “Selected Information – Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included” as required by professional standards.

Recommendation - The firm’s owner should carefully review the professional standards governing selected disclosures and make certain that the financial statements containing selected disclosures conform to those standards.

Deficiency – During our review, we noted an area where the financial statement presentation did not conform to professional standards. A provision for income taxes was not presented as required by generally accepted accounting principles. *(Note to reviewers: This might only be an FFC – just depends on significance of amount.)*

Recommendation – The firm’s owner should review professional standards concerning income taxes and make certain that financial statements conform to these standards.

## **DOCUMENTATION**

Deficiency - Our review identified an instance where the firm did not obtain a management representation letter during a review engagement of a manufacturing client.

Recommendation – The firm’s owner should carefully review the professional standards governing management representation letters and obtain such a letter for each review engagement performed by the firm.

Comment - Our review identified an instance where the management representation letter obtained by the firm during a review engagement did not contain all of the required representations.

Recommendation – The firm’s owner should carefully review the professional standards governing management representation letters and make certain that the management representation letters obtained by the firm conform to those standards.

Comment – The firm did not document its discussion with management regarding management’s responsibilities for overseeing non-attest services as required by professional standards.

Recommendation – The firm’s owner should review the current ethics interpretations focusing on the documentation requirements. Then the firm should comply with those requirements by adding appropriate wording to the client engagement letter or adding a memo to the client file.

Comment – The firm did not document the significant expectations it developed during the review engagement or the results of comparisons of those expectations with recorded amounts.

Recommendation – The firm’s owner should review the current standards relating to review engagements, focusing on documentation requirements. On future review engagements the firm should add a memo to the client files documenting the expectations developed and the results of comparisons of those expectations with recorded amounts.

Comment – The firm did not document its inquiries of management regarding fraud in the review engagement.

Recommendation – The firm’s owner should review the current standards relating to review engagements, focusing on documentation requirements. On future review engagements the firm should add a memo to the client files documenting the discussions held with management regarding fraud.