201 KAR 1:290. Standards of practice.

RELATES TO: KRS 325.240, 325.340(1)(c)

STATUTORY AUTHORITY: KRS 325.240(2); 15 U.S.C. 98; 29 U.S.C. 18; 31 U.S.C. 75; 31 U.S.C. 330; 2 C.F.R. Subtitle A Chapter II Part 200 Subpart F; 29 C.F.R. Subtitle A Part 99; and 31 C.F.R. Subtitle A, Part 10.

CERTIFICATION STATEMENT:

NECESSITY, FUNCTION, AND CONFORMITY: KRS 325.240(2) authorizes the Kentucky State Board of Accountancy to promulgate administrative regulations to establish and maintain a high standard of integrity and dignity in the profession of public accounting. This administrative regulation is necessary to ensure licensees follow specific accounting standards and principles that are nationally and internationally recognized and in some instances required by federal law, when performing a regulated activity. The Single Audit Act Amendments of 1996, 31 U.S.C. 75 and 2 C.F.R. Subtitle A Chapter II Part 200, require Generally Accepted Government Auditing Standards be adhered to when performing of audits of state and local governments and nonprofit entities that receive federal awards. 2 C.F.R. Subtitle A Chapter II Part 200 Subpart F of the Office of Management and Budgets Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, provides the government-wide guidelines and policies on conducting audits to comply with the Single Audit Act, and reiterates the requirement to use Generally Accepted Government Auditing Standards. The Sarbanes-Oxley Act of 2002, 15 U.S.C. 98, authorizes the Public Company Accounting Oversight Board to establish standards that licensees shall follow when performing audits of U.S. publicly traded companies. 31 U.S.C. 330 authorizes the Secretary of the United States Treasury Department to regulate licensees who practice before the Internal Revenue Service. 31 C.F.R. Subtitle A, Part 10 contains the procedures that licensees shall follow when practicing before the IRS. A CPA shall comply with the reporting requirements in The Employee Retirement Security Act of 1974, 29 U.S.C. 18, when performing an audit of an employee retirement plan created under the act. This administrative regulation establishes the standards of practice for CPAs and public accounting firms.

Section 1. Definitions.

(1) "AICPA" means the American Institute of Certified Public Accountants. (www.aicpa.org)

(2) "Audit" means an engagement performed in accordance with generally accepted auditing standards (GAAS) promulgated by the American Institute of Certified Accountants (AICPA) to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the licensee to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

(3) "Board" is defined by KRS 325.220(2).

(4) "Client" means a person or entity that retains a licensee to provide a regulated activity as defined in KRS 325.220 (9) (a).

(5) "Compilation" means an engagement to apply accounting and financial reporting expertise to assist management in the presentation of financial statements and report in accordance with the Statements on Standards for Accounting and Review Services without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

(6) "DOL" means the United States Department of Labor. (www.dol.gov.)

(7) "Financial statement" means a presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources and obligations at a point in time, or the changes therein for a period of time, in accordance with generally accepted accounting principles (GAAP) or another financial reporting financial framework. General use financial statements, financial forecasts, projections, and similar presentations are considered financial statements.

(8) "GAAP" means generally accepted accounting principles that describe accepted accounting practices at a particular time and include broad guidelines of general applications and detailed practices and procedures that provide a standard by which to measure financial presentations.

(9) "GAAS" means generally accepted auditing standards.

(10) "GAO" means the Government Accountability Office. (www.gao.gov).

(11) "IAASB" means the International Auditing and Assurance Standards Board. (www.iaasb.org)

(12) "IFAC" means the International Federation of Accountants. (www.ifac.org)

(13) "Licensee" is defined by KRS 325.220(6).

(14) "PCAOB" means the Public Accounting Standards Board. (www.pcaobus.org)

(15) "Regulated activity" is defined by KRS 325.220(9) (a).

(16) "Review" means an engagement to obtain limited assurance as a basis for reporting whether the licensee is aware of any material modifications that should be made to the financial statements for them to be in accordance with generally acceptable accounting principles or other financial reporting framework, primarily through the performance of inquiry and analytical procedures.

(17) "SEC" means the United States Securities and Exchange Commission. (www.sec.gov.)

Section 2. Standards of Practice. When performing a regulated activity, a licensee shall comply with 29 U.S.C. 18 and the following appropriate practice standards:

(1) The AICPA Professional Standards as reflected in the following documents:

(a) General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services;

(b) Review of Financial Statements, SSARS 21 and 23;

(c) Review of Financial Statements, SSARS 21, 23, and 24;

(d) Compilation Engagements;

(e) General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services, SSARS 21 and 23;

(f) General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services, SSARS 21, 23, and 24;

(g) Preparation of Financial Statements;

(h) Statements on Standards for Valuation Services;

(i) Review of Financial Statements: Accounting and Review Services;

(j) Special Considerations-International Reporting Issues; and

(k) Review of Financial Statements: Accounting and Review Services Interpretation of Section 90.

(2) Government Auditing Standards, Yellow Book;

(3) Auditing Standards of the Public Company Accounting Oversight Board; and

(4) International Standards on Auditing issued by the IAASB and published on the IFAC web site. (www.ifac.org.).

Section 3. Accounting Principles.

(1) A licensee who is aware that the financial statement or financial data of any entity contains a departure from the applicable financial reporting framework that has a material effect on the financial statement or financial data taken as a whole shall not:

(a) Express an opinion or state affirmatively that the financial statement or financial data are presented in conformity with the applicable financial reporting framework; or

(b) State that he or she is unaware of any material modifications that should be made to the statements in order for them to be in conformity with the applicable financial reporting framework.

(2) Financial statements may depart from the applicable financial reporting framework, if the licensee:

(a) Demonstrates that due to unusual circumstances the financial statements or data would otherwise be misleading;

(b) Describes the departure;

(c) States the approximate effects, if practicable; and

(d) Explains the reasons why compliance with the applicable financial reporting framework would result in a misleading statement.

Section 4. Generally Accepted Auditing Standards. A licensee engaged to audit financial statements shall comply with following standards:

(1) Generally accepted auditing standards for audits of public companies required to register with the SEC shall use the Auditing Standards of the Public Company Accounting Oversight Board;

(2) Generally accepted auditing standards for federal agencies or entities receiving significant federal financial assistance shall use Government Auditing Standards, Yellow Book issued by the GAO, Comptroller General of the United States;

(3) Generally accepted auditing standards for all entities except those specified in subsection (1) and (2) of this section known as the AICPA Professional Standards and that includes the documents listed in Section 2(1)(a) through (k) of this administrative regulation; or

(4) International Standards on Auditing issued by the IAASB and published on the International Federation of Accountants Web site (www.ifac.org) in the following cases:

(a) The standards in subsection (1) or (3) of this section, as applicable to the specific audit engagement, do not prohibit the use of those standards; or

(b) The parent company of the entity being audited is located in a foreign country and requires the use of those standards.

Section 5. Practice before the Internal Revenue Service. A licensee shall comply with the standards contained in the United States Department of Treasury Circular Number 230 (2014) 31 C.F.R. Subtitle A, Part 10, (2014).

Section 6. Incorporation by Reference.

(1) The following material is incorporated by reference:

(a) "AICPA Professional Standards," December 2015 Edition;

1. "General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services", December 15, 2015;
2. "Review of Financial Statements, SSARS 21 and 23", December 15, 2015;
3. "Review of Financial Statements, SSARS 21, 23, and 24", December 15, 2015;
4. "Compilation Engagements", December 15, 2015;
5. "General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services, SSARS 21 and 23", December 15, 2015;
6. "General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services, SSARS 21, 23, and 24", December 15, 2015;
7. "Preparation of Financial Statements", December 15, 2015;
8. "Statements on Standards for Valuation Services", June 2007;

9. "Review of Financial Statements: Accounting and Review Services", February 2016;

10. "Special Considerations-International Reporting Issues", June 15, 2019; and

11. "Review of Financial Statements: Accounting and Review Services Interpretation of Section 90", February 2016;

(b) "Government Auditing Standards, Yellow Book", July 2018 Edition;

(c) "Auditing Standards of the Public Company Accounting Oversight Board", December 15, 2017 Edition; and

(d) "International Standards on Auditing," 2017 Edition.

(2) This material may be inspected, copied, or obtained, subject to applicable copyright law, at the Kentucky State Board of Accountancy, 332 W. Broadway, Suite 310, Louisville, Kentucky 40202, Monday through Friday, 8 a.m. to 4:30 p.m.

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