

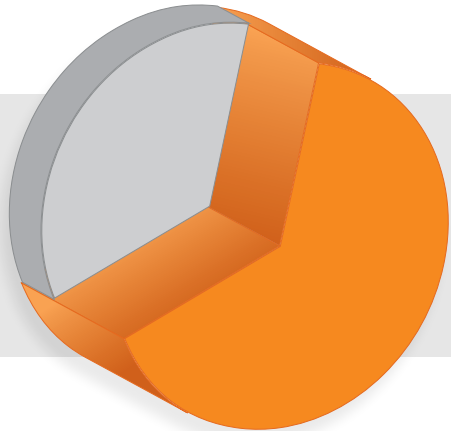
SPECIAL REPORT:
POTENTIAL PITFALLS OF SSARS 21



Last fall, the Accounting and Review Services Committee issued SSARS 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification. SSARS 21 is the most significant change to the Statements on Standards for Accounting and Review Services (SSARS) since their inception in 1978.

Practitioner awareness of the new Standard, as well as the financial statement preparation service introduced by the Standard, has increased significantly since last year. However, many practitioners are still not aware of the significant changes that SSARS 21 makes to compilation and review engagements or the specific requirements necessary to provide the financial statement preparation service. In this special report, we focus on some of the more significant changes to the SSARS to help CPAs avoid potential pitfalls and noncompliance with the new Standard.

Between Q2 2014 and Q2 2015, the number of customers surveyed who were familiar with the new standard and its provision of a financial statement preparation service increased from 35% to 85%.



2015

Familiar with SSARS 21	114	85%
Not familiar with SSARS 21	20	15%

In a survey of our customers during the second quarter of 2015, 85% were familiar with the new standard and its provision of a financial statement preparation service.

In a survey of our customers during the second quarter of 2014, only 35% were familiar with the proposed standard and its provision of a financial statement preparation service.



OBSERVATION: SSARS 21 supersedes all outstanding SSARS through SSARS 20 except SSARS 14, Compilation of Pro Forma Financial Information, and is effective for periods ending on or after December 15, 2015. Early implementation is permitted.

General Principles Add New Requirements Applicable to all SSARS Engagements

AR-C 60, General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services, replaces AR 60, Framework for Performing and Reporting on Compilation and Review Engagements, and adds engagement partner responsibilities and acceptance and continuance requirements to all SSARS engagements.



AR-C 60.19 states that the engagement partner of a SSARS engagement should possess adequate competence and capabilities to perform the engagement. In addition, the partner should be competent in financial reporting matters that relate to the engagement. The engagement partner's responsibilities in a SSARS engagement are specifically addressed in AR-C 60.20. The engagement partner is responsible for the following:

- a. The overall quality of the engagement
- b. Directing, supervising, planning and performing the engagement to comply with all applicable professional standards and ethical and legal requirements
- c. The appropriateness of the accountant's report, if applicable
- d. Performing the engagement in accordance with the firm's quality control policies and procedures, which include:
 - 1) Being satisfied that appropriate client acceptance and continuance procedures have been followed and that conclusions reached are appropriate, including consideration of any information that indicates that management lacks integrity
 - 2) Being satisfied that the engagement team as a whole has sufficient competence, capabilities and expertise in financial reporting to perform the engagement in accordance with applicable professional standards and legal and regulatory requirements
 - 3) Ensuring appropriate engagement documentation is maintained

The engagement partner's actions, as well as the messages he or she sends to members of the engagement team, emphasize that quality is essential in a SSARS engagement. The standard goes on to say that the following are important when addressing the quality of an engagement:

- a. Performance of work that complies with applicable professional standards and regulatory and legal requirements
- b. Compliance with the firm's quality control policies and procedures
- c. Issuance of the appropriate report, when applicable
- d. Ability of the engagement team to raise concerns without fear of reprisals



OBSERVATION: According to SSARS 21, an engagement partner may be a partner or any other person in the firm who has overall responsibility for the engagement and, when required, has the appropriate professional, legal or regulatory authority.




An engagement partner may be a partner or any other person in the firm who has overall responsibility for the engagement.



In addition, according to AR-C 60.24, an accountant should not accept an engagement to be performed in accordance with SSARS unless the accountant (a) believes that relevant ethical requirements will be satisfied, (b) has a preliminary understanding that indicates information needed to perform the engagement is likely to be both available and reliable and (c) has no cause to doubt management’s integrity.

Furthermore, before a SSARS engagement is accepted, AR-C 60.25 requires the accountant to:

- a. Determine whether the accountant’s preliminary knowledge of the circumstances surrounding the engagement indicate that ethical requirements regarding professional competence will be met
- b. Determine whether the financial reporting framework management has selected to be used in the preparation of the financial statements is acceptable under the circumstances
- c. Obtain the agreement of management that it acknowledges and understands its responsibility for the engagement

 **OBSERVATION:** Generally, the accountant will obtain management’s acknowledgment of its responsibilities for the engagement in the engagement letter.



Indicators of Financial Statement Preparation Engagements

AR-C 70, Preparation of Financial Statements, introduces a new type of service (financial statement preparation) and applies when an accountant is engaged to prepare financial statements. There is a difference between being engaged to prepare financial statements and merely assisting in preparing financial statements. It requires judgment to determine whether the CPA has been engaged to prepare financial statements. The following table, which has been adapted from an appendix to AR-C 70, includes indicators to help a CPA make that determination:

Indicators It Is a Financial Statement Preparation Engagement	Indicators It Is Not a Financial Statement Preparation Engagement
Being engaged to prepare historical financial statements for use by another CPA who is performing a review or audit of those financial statements	Preparing financial statements when the accountant will also compile, review or audit those financial statements
Being engaged to prepare financial statements for presentation with the entity’s tax return other than for submission with the tax return to tax authorities	Preparing financial statements for submission with the tax return to tax authorities
Preparing financial statements for presentation with a personal financial plan not prepared by the accountant	Preparing financial statements for inclusion in a written personal financial plan prepared by the accountant
	Preparing financial statements in connection with litigation services involving pending or potential legal or regulatory proceedings
	Preparing financial statements in connection with business valuation services
	Maintaining depreciation schedules
	Proposing adjusting journal entries
Preparing a single financial statement, such as a balance sheet or income statement or preparing financial statements that omit substantially all disclosures	Drafting the notes to the financial statements
Preparing financial statements using the client’s general ledger outside of the accounting system	Entering accounting transactions into the client’s accounting system



Differences Between Management-Use-Only Engagements and Financial Statement Preparation


The new financial statement preparation service isn't the same as the existing management-use-only compilation engagement even though they are both nonreporting options. After implementing SSARS 21, the CPA will be able to prepare financial statements for use by a third party, not just management, without having to issue a compilation report. So, there will no longer be a need for the current guidance allowing management-use-only financial statements.

There are some important requirements related to financial statement preparation that CPAs need to consider. If the financial statements are prepared in accordance with a special purpose framework, the CPA is required to describe the financial reporting framework used. Regardless of the financial reporting framework used, the financial statements prepared following the guidance in SSARS 21 must disclose, either on the face of the financial statements or in a selected note or notes, any material misstatements such as those caused by a known departure from the applicable financial reporting framework or inadequate disclosures. In a management-use-only compilation engagement, the CPA would simply state in the engagement letter that material departures from the applicable financial reporting framework may exist and the effects of those departures, if any, may not be disclosed. Thus, it is very important for CPAs to understand the latest financial reporting requirements. Using a comprehensive financial statement disclosure checklist is a good way to ensure compliance with all of the disclosure requirements.

Differences Between Preparation and Compilation Engagements

The following table compares the preparation of a financial statement engagement to a compilation engagement following the requirements of SSARS 21.

Preparation	Compilation
Engagement letter	Engagement letter
No determination of independence	Must make independence determination
Requires a statement on the financial statements indicating no assurance is provided	Requires a report
Permits third party use	Permits third party use
Allows omission of disclosures if disclosed	Allows omission of disclosures if disclosed
Must describe departures from applicable framework	Must describe departures from applicable framework

 **OBSERVATION:** The only differences between a financial statement preparation engagement and a compilation engagement are that the compilation engagement requires (1) the assessment of independence as impairment of independence must be disclosed in a compilation report and (2) the issuance of a report. A preparation engagement requires neither, but does require a statement on the financial statements indicating no assurance is provided in lieu of a report.





Significant Compilation Engagement Changes

Adoption of SSARS 21 (AR-C 80) results in a number of significant changes to the compilation engagement. Here are some of the most important changes:

- Compilations become engagement driven under SSARS 21 instead of submission driven. Previously, CPAs determined whether they were required to compile financial statements by evaluating whether they had submitted financial statements based on the criteria in the SSARS literature. After adopting SSARS 21, CPAs only perform compilations when engaged to do so.
- As stated previously, there will no longer be an option to perform a management-use-only compilation without issuing a compilation report.
- CPAs will be required to obtain an engagement letter signed by both the CPA and either management or those charged with governance, as appropriate. The requirement for the engagement letter to be signed is new under SSARS 21.
- The standard compilation report will be much shorter at only one paragraph instead of the current three paragraphs and will no longer require a title, but it will now require that the city and state where the CPA practices be included. (See the example, below, of the new one paragraph report.)

To Management

XYZ Company

City, State

Management is responsible for the accompanying financial statements of XYZ Company (a corporation), which comprise the balance sheet as of December 31, 20XX and the related statements of income and retained earnings and cash flows for the year then ended and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Firm's Signature

City, State

Report Date

- If the financial statements that include substantially all disclosures are prepared in conformity with a special purpose framework, the compilation report should include a separate paragraph regarding that framework.
- The requirements for the compilation engagement are simplified and streamlined, and there will no longer be any interpretations. Many of the pre-SSARS 21 requirements and the guidance in the interpretations will now reside in the AICPA Guide: Preparation, Compilation and Review Engagements.



Significant Review Engagement Changes

The review engagement literature under AR-C 90 won't change significantly after the adoption of SSARS 21. However, here are some changes to review engagements:

- Review engagements will also require an engagement letter signed by both the CPA and management. The requirement for the letter to be signed is new under SSARS 21.
- The accountant's report on reviewed financial statements changes to incorporate headings similar to the way auditor's reports use headings and to include the city and state where the CPA practices.
- If the reviewed financial statements are prepared in accordance with a special purpose framework, the accountant's review report should include a separate paragraph regarding that framework.
- AR-C 90 introduces the terms emphasis-of-matter (EOM) and other-matter (OM) currently used in the audit literature to the review literature. There is a requirement to include EOM or OM paragraphs in the review report in certain instances.
- The CPA will be required to obtain evidence that the financial statements reconcile to the accounting records.
- SSARS 21 introduces requirements when using the work of other accountants.
- The CPA will be required to accumulate and evaluate misstatements identified while performing review procedures and determine whether modifications should be made to the financial statements.
- If there are material known departures from the applicable financial reporting framework, the CPA should consider whether modifications to the standard review report are adequate or whether he or she should withdraw from the engagement.



Implementation of SSARS 21

Not only does SSARS 21 add a new service — financial statement preparation — and significantly change requirements and procedures for other SSARS engagements, but it also changes the content of the engagement letters, reports and management representation letters applicable to compilation and review engagements. Because SSARS 21 introduces such substantive changes, guidance and training are imperative.

In addition, firms who provide 2015 interim SSARS engagements under SSARS 19 will be required to implement SSARS 21 for their year-end SSARS engagements. Consequently, if those firms typically issue one engagement letter to address both the interim and year-end compilation or review services provided to a client, the firm will need to ensure that the engagement letter is both SSARS 19 and SSARS 21 compliant. If the SSARS 19 engagement letter was not modified and was issued to cover all of the 2015 compilation or review services for a particular client, the firm will need to amend the engagement letter to make it SSARS 21 compliant for the year-end compilation or review. Also, firms will want to educate their clients on what to expect with the new engagement requirements.

Because SSARS 21 introduces such substantive changes, guidance and training are imperative.

RELATED GUIDANCE AND TRAINING

You'll find all the comprehensive tools and learning opportunities you need to help ensure you're ready to address financial statement preparation and compilation and review services.

PPC'S GUIDE TO COMPILATION AND REVIEW ENGAGEMENTS

PPC's Guide to Compilation and Review Engagements contains hundreds of practice aids, sample reports, sample disclosures and financial statements, all completely updated for SSARS 21, to help you perform your engagements correctly and with maximum efficiency. Dozens of timesaving tools will ensure you'll stay in compliance with professional standards and peer review requirements, reducing your risk of non-compliance.

PPC'S GUIDE TO SSARS PREPARATION ENGAGEMENTS

PPC's Guide to SSARS Preparation Engagements explains the new financial statement preparation service introduced by SSARS No. 21 and gives you the guidance and practice aids you need to perform that service. Financial statement preparation may not be a complicated service, but it does have its own set of professional requirements that you must meet.

PPC'S COMPILATION, REVIEW AND BOOKKEEPING SERVICES LIBRARY

This library covers the basics of compilation and review services and provides in-depth guidance for specific entities and unique engagements.

PPC'S GUIDE TO QUALITY CONTROL — COMPILATION AND REVIEW

This guide is designed to assist compilation and review firms in developing, implementing and maintaining a system of quality control that incorporates the requirements of SQCS 8 and satisfies AICPA peer review requirements in the most efficient way possible.

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PPC's Practice Aids™ — Compilation and Review Engagements is the perfect companion to your subscription to PPC's Guide to Compilation and Review Engagements (CAR). They are Microsoft® Word and Excel versions of all of the editable practice aids in that guide, and they contain extensive practical considerations and tips to help you conduct your compilation and review engagements effectively and efficiently. You can save hours of time by not having to tailor your existing practice aids for these types of engagements.

PPC'S PRACTICE AIDS™ — COMPILATION AND REVIEW REPORTS

PPC's Practice Aids — Compilation and Review Reports are editable Microsoft® Word versions of over 225 example compilation and review reports.

PPC'S PRACTICE AIDS — QUALITY CONTROL: COMPILATION AND REVIEW

Simplify your compilation and review processes of quality control with editable Microsoft Word and Excel versions of all of the practice aids in the related PPC Guide to Quality Control — Compilation and Review.

PPC'S SMART PRACTICE AIDS — COMPILATION AND REVIEW

Get increased efficiency using automated, industry-tailored checklists and forms for the engagement planning and performance of your compilation and review engagements.



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