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Compilation and Review Update

SSARS 19, COMPILATION AND REVIEW ENGAGEMENTS



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SSARS 19

- Issued December 29, 2009
- End result of 3 proposals issued in April 2009
- Came out of the “Reliability Project”
- Effective for compilations and reviews of financial statements for periods ending after December 15, 2010



SSARS 19

- Three primary sections
 - Framework
 - Compilation engagements
 - Review engagements



Framework

- **Definitions**
 - Applicable financial reporting framework
 - Assurance engagement
 - Attest engagement
 - Financial reporting framework
 - Financial statements
 - Management
 - Nonissuer
 - Other comprehensive basis of accounting (OCBOA)
 - Review evidence
 - Submission of financial statements
 - Third party
 - Those charged with governance



Framework

- **Objectives and limitations**
- **Elements**
 - 3-party relationship
 - Applicable financial reporting framework
 - Financial statements or information
 - Evidence (review)
 - Reports
 - Materiality



Changes to Compilation Engagements

- Independence disclosure provision
- Engagement letter requirement
- Documentation requirements
- Revised reports



Independence Disclosure

- New option
 - "...accountant is not precluded from disclosing a description about the reason(s) that his or her independence is impaired."
 - Permits, but does not require, the accountant to disclose the reasons



Independence Disclosure

- Should ensure that all reasons are included in the description
- May combine the reasons into a single paragraph
- Provide as much detail as appropriate in the circumstances
- Should make sure that description is not misleading



Independence Disclosure

- Example of new option
 - I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (we) performed certain accounting services (the accountant may include a specific description of those services) that impaired my (our) independence.



Independence Disclosure

- **Former method still available**
 - I am (We are) not independent with respect to XYZ Company.



Engagement Letter Requirement

- **Written engagement letter for all compilation engagements**
 - Traditional (with report)
 - Management-use-only (no report)
- **May combine periods into one engagement letter**
- **Revised language for illustrative engagement letter**



Documentation Requirement

- **Prior to SSARS 19**
 - Management-use-only engagement letter
 - Fraud/illegal acts communication
 - Alternative to presumptively mandatory requirement
- **SSARS 19**
 - All of the above
 - Engagement letter for all compilations
 - Things that look funny



Revised Compilation Report

- Title
- Addressee
- Introductory paragraph
- Management's responsibility
- Accountant's responsibility
- Objective
- Signature
- Date



Revised Compilation Report

Accountants' Compilation Report

Board of Directors
XYZ Company

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

[Signature of accounting firm or accountant, as appropriate]

[Date]



Revised Compilation Report—Omission of Disclosures

Accountants' Compilation Report

Board of Directors
XYZ Company

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

[Signature of accounting firm or accountant, as appropriate]

[Date]



Revised Compilation Report—Income Tax Basis

Accountants' Compilation Report

Board of Directors
XYZ Company

I (we) have compiled the accompanying balance sheet—income tax basis of XYZ Company as of December 31, 20XX, and the related statement of income—income tax basis for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the income tax basis of accounting.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared in accordance with the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

[Signature of accounting firm or accountant, as appropriate]

[Date]



Changes to Review Engagements

- Review concepts
- Engagement letter requirement
- Documentation requirements
- Revised reports



Review Concepts

- Objective – “...limited assurance that there are no material modifications that should be made...”
- Review evidence provides basis
 - Inquiries
 - Analytical procedures
- Design procedures based on
 - Knowledge of industry
 - Knowledge of client’s business
 - Awareness of risk



Engagement Letter Requirement

- Written engagement letter for all review engagements
- May combine periods into one engagement letter
- Revised language for illustrative engagement letter



Documentation Requirement

- Previous guidance = matters covered in the inquiry procedures
- SSARS 19
 - Document management's responses to inquiries regarding fluctuations or relationships that are inconsistent
 - Document management's responses to the significant matters covered in the inquiry procedures



Revised Review Report

- Title
- Addressee
- Introductory paragraph
- Management's responsibility
- Accountant's responsibility
- Results of the engagement
- Signature
- Date



Revised Review Report

Independent Accountant's Review Report

Board of Directors
XYZ Company

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provide a reasonable basis for our report.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

[Signature of accounting firm or accountant, as appropriate]
[Date]



SSARS 19 Implementation

- **Effective date**
 - Engagements for financial statements with periods ending after December 15, 2010
- **Independence disclosure option may be used on compilation reports issued after December 30, 2009**
- **AICPA has issued a new *Compilation and Review Guide***



SSARS 20, REVISED APPLICABILITY OF STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES



SSARS 20

- Minor changes to the applicability of SSARS for reviews of financial statements
- SSARSs do not apply if
 - Most recent annual financial statements were audited
 - Upcoming annual financial statements will be audited
 - Same basis of accounting is used
- In these cases, follow audit standards





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