Reflections on SSARS 21 Implementation: A Panel Discussion
Today’s Objectives

This program is designed to help you better understand:

• The changes to practice as a result of the implementation of SSARS No. 21 – including significant revisions to the requirements for financial statement preparers.
  - When section 70 applies and when it does not
  - The importance of the engagement letter and engagement letter best practices
  - Best practices with respect to the legend to be included on each page of the financial statements prepared by the accountant
  - Preparing financial statements that omit disclosures, include a known departure, or are prepared in accordance with a special purpose framework
Today’s Presenters

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Today’s Presenters

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Section 70 – Preparation of Financial Statements
Section 70 – Preparation of Financial Statements

- Intended to be short and easy to apply
  - Only 22 requirement paragraphs and 19 application paragraphs

- Applies when the accountant is engaged to prepare f/s but not engaged to perform an audit, review, or compilation on those f/s
When does Section 70 apply?
When does Section 70 apply?

- Can be applied to a single financial statement
- Does **not** apply when the accountant has been engaged to merely assist in preparing financial statements or when the accountant prepares financial statements as a by-product of another engagement.
- Does **not** apply to CPAs who are performing these functions in connection with their role as an employee (that is, not in public practice).
- While personal financial statements are treated like any other financial statements, if the preparation is part of an engagement to prepare a written personal financial plan, then SSARSs would not apply.
Section 70 – Preparation of Financial Statements

- The understanding with the client as to what the engagement entails is important!!
Section 70 – Preparation of Financial Statements

- Does not require the accountant to consider whether he or she is independent
- Requires an engagement letter signed by both the accountant and management/those charged with governance
- Can be applied to f/s with or without disclosures
Section 70 – Preparation of Financial Statements

- Report is not required – even if financial statements are expected to be used by a third party
  - Not prohibited from including a cover sheet with the firm name

- Requires a legend on each page of the f/s stating that no assurance is being provided
  - Normally placed on the bottom of each page of the financial statements – including related notes
  - Not precluded from including accountant’s or accountant’s firm name in the legend
  - Accountant is not precluded from including positive statements in the legend
Examples of language that can be used in the legend are as follows:

- No assurance is provided on these financial statements.
- These financial statements have not been subjected to an audit or review or compilation engagement, and no assurance is provided on them.
Section 70 – Preparation of Financial Statements

- Ensures that users are able to readily identify that the accountant is providing no assurance with respect to the financial statements.
- Can present comparative financial statements that were subjected to a compilation report with current year prepared financial statements.
- Software vendors are expected to include in their software
Section 70 – Preparation of Financial Statements

• If management refuses or cannot include the legend, the accountant can:
  • Issue a disclaimer report,
  • Perform a compilation, review, or audit engagement, or
  • Resign.
Section 70 – Preparation of Financial Statements

- Resembles a traditional “management use only” (SSARS 8) non-reporting engagement without the limitation on distribution.
  - SSARS 8 required that each page of the financial statements include a legend on each page of the financial statements such as “Restricted for Management Use Only” or “Solely for the information and use by the management of [name of entity] and not intended to be and should not be used by any other party.”
Section 70 – Preparation of Financial Statements

- If the financial statements omit substantially all disclosures – disclose the omission in the financial statements

  • Can be disclosed in the titles:
    
    XYZ Company
    Balance Sheet
    Substantially All Disclosures Required by GAAP Omitted
    December 31, 20X2

  • Can be in the legend:
    
    - Substantially all disclosures required by GAAP omitted. No assurance is provided on these financial statements.

  • Can be in a selected note to the financial statements.
Section 70 – Preparation of Financial Statements

- If the financial statements contain a known framework departure – disclose in the financial statements
  - May be on the face of the financial statements or in a note
  - Do not prepare financial statements if omission of disclosures or other known framework departures are done to mislead users
Section 70 – Preparation of Financial Statements

When preparing financial statements in accordance with a special purpose framework/OCBOA, the accountant is required to include a description of the financial reporting framework on the face of the financial statements or in a note to the financial statements.
Section 70 – Preparation of Financial Statements

Are preparation engagements subject to peer review?

- Firms that only perform preparation engagements are not required to enroll in the AICPA PRP.
- A firm’s preparation engagements are included in the scope of a peer review when the firm either elects to enroll in the program (e.g. to comply with licensing or other requirements) or is already enrolled due to other engagements it performs.
- The changes are effective for peer reviews commencing on or after February 1, 2015.
- Check with your state board of accountancy as requirements vary by state.
Section 80 – Compilation Engagements
Section 80, Compilation Engagements

- Intended to be short and easy to apply
  - Only 38 requirement paragraphs and 43 application paragraphs

- Applies when the accountant is engaged to perform a compilation engagement

- Other than the applicability and reporting requirements, the compilation literature is largely unchanged from SSARS No. 19
Section 80, Compilation Engagements

- Retains the independence requirements from the SSARS 19.
- Requires an engagement letter signed by both the accountant and management/those charged with governance.
- Can be applied to financial statements with or without disclosures.
Section 80, Compilation Engagements

- Primary difference from SSARS No. 19 is in the reporting requirements

- Report is always required.
  - Report is shortened to differentiate from audit and review (assurance) reporting
  - Management use only financial statements are be covered by the preparation standard
Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1 and the related statements of income, changes in stockholder’s equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (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. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.
Comp. Report – Add’l paragraphs

• When financial statements are prepared in accordance with a Special Purpose Framework/OCBOA
• Disclosures omitted
• Lack of independence
• Known Departure From the Applicable Financial Reporting Framework
• Supplementary Information Accompanies Financial Statements and the Accountant’s Compilation Report Thereon
Compilation vs Preparation Services

- Results in a bright line between accounting (preparation) services and reporting (compilation) services.
- Independence is a required *consideration* for compilation service but is not required for preparation service.
  - Like all other non-attest services, if the accountant prepares financial statements that will be subject to a compilation, review, or audit the safeguards in the independence literature have to be present or independence is impaired.
Section 90 – Review of Financial Statements
Section 90, Review of Financial Statements

- Is primarily a clarity redraft of SSARS No. 19 with respect to review engagements.
- The SSARSs review literature is converged with the requirements of AU-C section 930, *Interim Financial Information*
  - Results in consistency between limited assurance engagements.
Section 90, Review of Financial Statements

• **Scope**
  - The Standard may be applied to historical financial information other than historical financial statements, such as:
    - Specified elements, accounts, or items of a f/s
    - Supplementary information
    - Required supplementary information
    - Financial information included in a tax return
Section 90, Review of Financial Statements

- Requires an engagement letter signed by both the accountant and management/those charged with governance
Section 90, Review of Financial Statements

- **Requirements with respect to communications with other accountants is enhanced**
  - Required to obtain and read reports from other accountants when other accountants have issued a report on the financial statements of significant components, such as subsidiaries and investees (was a should consider in SSARS 19)
  - Required to communicate with other accountants
    - That the financial statements will be included in the financial statements on which the accountant is reporting and that the other accountant’s report will be relied upon (and may be referred to)
    - To ascertain that the other accountants are familiar with the FRF, SSARSs, or GAAS, as applicable
    - That a review will be made of matters affecting the elimination of intercompany transactions
Section 90, Review of Financial Statements

Reporting on financial statements

- Requires the use of headings in the accountant’s review report
- Required to name the city and state of the issuing office
  - May be included on letterhead
Example - Accountant’s Review Report

[Appropriate Addressee]

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the financial statements. 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.
Example - Accountant’s Review Report

Management’s Responsibility for the Financial Statements

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.
Example - Accountant’s Review Report

Accountant’s Responsibility

My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for our conclusion.
Example - Accountant’s Review Report

Accountant’s Conclusion

Based on my (our) reviews, 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 accordance with accounting principles generally accepted in the United States of America.

[Signature of accounting firm or accountant, as appropriate]
[Accountant’s city and state]
[Date of the accountant’s review report]
Helpful Information and Resources

More information

- Dedicated ARSC Clarity page on AICPA Website at [http://www.aicpa.org/InterestAreas/FRC/Review/Pages/ARSCCllarityProject.aspx](http://www.aicpa.org/InterestAreas/FRC/Review/Pages/ARSCCllarityProject.aspx)
  - Will be updated frequently
Helpful Information and Resources
Helpful Information and Resources

CPE Training
- **Preparation, Compilation and Review Staff Essentials**
  This 17-hour curriculum, presented in 1 to 3 hour self-paced modules, will provide the comprehensive training needed to consistently and accurately perform these types of engagements.

Publications
- **Preparation, Compilation, and Review Engagements Guide**
- **Developments in Preparation, Compilation, and Review Engagements 2015/16 Alert**
- **Exploring SSARS No. 21: A Look at Preparation, Compilation and Review Services Toolkit**

Other SSARS No. 21 learning resources located at [www.cpa2biz.com/SSARS21](http://www.cpa2biz.com/SSARS21)
Helpful Information and Resources

Authoritative standards for non-issuers (SASs, SSARSs, SSAEs, SQCSs) as of June 1 are available at

http://www.aicpa.org/RESEARCH/STANDARDS/Pages/default.aspx
Helpful Information and Resources

- **AICPA Accounting and Auditing Technical Hotline**
  - (877) 242-7212
  - techinquiry@aicpa.org
Center for Plain English Accounting

AICPA PCPS national A&A resource center for firms

aicpa.org/CPEA

Services:

- Written responses to written technical inquiries
- Monthly “how-to” A&A reports
- Webcasts
- Alerts
- Content for firm newsletters
Questions?
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