

COMPILATION AND REVIEW UPDATE

PRESENTED TO THE NORTH ATLANTA CHAPTER OF THE GEORGIA SOCIETY OF CPAs

August 19, 2010

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This Speech is Primarily Based on Compilation and Review Alert-2010 Published by the AICPA

- ◆ This is a nonauthoritative practice aide and is prepared by AICPA staff and was issued in June 2010. It is updated for items where the alert data has been superseded and new pronouncements.
- ◆ The Alert is intended to assist accountants in planning and performing 2010 and 2011 compilation and review engagements. It discusses recent Statements on Accounting and Review Services (SSARs) developments, points out pitfalls that frequently occur, addresses emerging practice issues, and provides information regarding current accounting developments.
- ◆ The Alert cites the applicable sections of the codification and not the numbered statements, as appropriate now.

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- ◆ The key focus in the Alert is the recently issued SSARS No. 19.
- ◆ The Alert mentions Interpretations issued by the ARSC to provide guidance on applying SSARS. These can be found in AR sections 9100, 9200, 9400, and 9600 of ARCPA *Professional Standards* volume 2.

SSARS No. 19 *Compilation and Review Engagements*

- ◆ SSARS No. 19 is effective for periods ending on or after December 15, 2010 and includes the most significant changes to compilation and review standards since 1978.
- ◆ Areas addressed include:
 - ◆ New reporting option available to be implemented early .
 - Accountant has option, but not is required, to disclose reasons for independence impairment in accountant's compilation report.
 - Allows transparency to users and flexibility for accountants.
 - ◆ Separate compilation guidance from review guidance.
 - ◆ Limited assurance as obtained through performance of review procedures.

SSARS No. 19 *Compilation and Review Engagements*

- ◆ **Other areas addressed include:**
 - ◆ Tailoring review procedures based on:
 - Understanding client's industry.
 - Knowledge of client.
 - Awareness of risk of unknowingly fail to modify review report on financial statements that are materially misstated.
 - ◆ Materiality in a review engagement.
 - ◆ Required documentation of the understanding with management through a written communication.
 - ◆ Enhanced documentation requirements for both compilation and review engagements.

SSARS No. 19 *Compilation and Review Engagements*

- ◆ **Additional guidance in AICPA's *Compilation and Review Engagements Guide*.**
- ◆ **Applicability of AR Section 100**
 - ◆ Defines compilations and reviews.
 - ◆ Covers the submission of unaudited financial statements.
 - Defined as "presenting to a client or third parties financial statements that the accountant has prepared either manually or through the use of computer software."
 - Submission requires two actions - "prepare" and "present"

SSARS No. 19 *Compilation and Review Engagements*

◆ Applicability of AR Section 100

- ◆ **Technical Questions and Answers section 9150.25 *Determining Whether Financial Statements Have Been Prepared by the Accountant* provides additional guidance on factors to consider when accountant's work results in or contributes to the existence of financial statements.**
 - Process used to create financials.
 - Nature of engagement services.
 - Extent of accountant's work effort.
 - Location of underlying accounting information.
 - Printing of financials or where work was performed are not factors.

SSARS No. 19 *Compilation and Review Engagements*

◆ Applicability of AR Section 100

- ◆ "Presenting" is not defined by SSARS
- ◆ Address "Submission" early in the engagement.

SSARS No. 19 *Compilation and Review Engagements*

Engagement Planning and Administration Considerations

- ◆ Client acceptance
- ◆ SSARS 8 engagement letters
- ◆ Written understanding for bookkeeping services
 - Cannot be relied upon to detect errors, fraud, or illegal acts.
- ◆ Performance of nonattest services (Interpretation 101-3)

SSARS No. 19 *Compilation and Review Engagements*

Engagement Planning and Administration Considerations

- ◆ Lists are available of engagement letter elements and illustrations
- ◆ Engagement letters
- ◆ Step-up and Step-down engagements
- ◆ Communications between predecessor and successor accountants
- ◆ Subsequent discovery of facts

SSARS No. 19 *Compilation and Review Engagements*

Discussion of Review Engagements as Covered in AR Section 100

- ◆ Application of Analytical Procedures
 - ◆ To Include:
 - Developing expectations by identifying and using plausible relationships that are reasonably expected.
 - Comparing recorded amounts, ratios, and developed expectations.
 - ◆ With Inquiries
 - ◆ With initial review engagements
 - ◆ When expectations are not met

This section includes other examples of analytical procedures.

SSARS No. 19 *Compilation and Review Engagements*

Discussion of Review Engagements as Covered in AR Section 100

- ◆ Application of Inquiries and Other Review Procedures
 - ◆ Illustrations of inquiries given
- ◆ Representations from Management
 - ◆ Must cover fraud
 - ◆ Can be tailored for other options including VIEs
 - ◆ Should consider updating under certain circumstances
- ◆ Documentation of Procedures

Other Items in Alert

- ◆ **Presentation of Accountant's Report and Form and Content of Financial Statements**
- ◆ **Reporting for Compilations**
 - ◆ **Going Concern Issues**
- ◆ **Reporting for Reviews**
- ◆ **Special Areas**
 - ◆ **OCBOA**
 - ◆ **Personal financial statements**
 - ◆ **Specific elements, accounts, or items in financial statements**

Prior Year Topics

- ◆ **Recently Issued SSARS Interpretations**
 - ◆ **In response to the IASB, Interpretation No. 24 of AR Section 100 states that there is no prohibition to referencing the County of Origin in a Review or Compilation Report and gives an example of an emphasis paragraph to do this. Also, the third paragraph of a review report can be modified to make the reference.**
 - ◆ **Interpretation No. 30 of AR Section 100 also responds to IASB in "Considerations Related to Financial Statements Prepared in Accordance With International Standards" of AR section 100 and gives an example of a third emphasis paragraph report for a compilation for financial statements prepared in accordance with IASB and similarly for reviewed financial statements.**

Prior Year Topics

- ◆ Disclosures to be included as to the nature of an event and an estimate of its effect – or a statement that an estimate cannot be made.
- ◆ Proposed Statement on Standards for Attestation Engagements, Reporting on Compiled Prospective Financial Statements when the Practitioner's Independence is Impaired.

Revised Standards for Performing and Reporting on Peer Reviews

- ◆ Main thrust is transparency.
- ◆ New reports are shorter and simpler.
- ◆ System and engagement review reports results in:
 - Pass
 - Pass with deficiency(ies).
 - Fail
- ◆ All deficiencies and recommendations previously resulting in a modified or adverse opinion will be included in the system or engagement review report. Any resulting problem (substandard terminology is gone) engagements will be identified and will include industry and level of service, if it is an issue.

Revised Standards for Performing and Reporting on Peer Reviews (cont.)

- ◆ Former report review reports are gone and are now combined in engagement reviews and use the engagement review reports. Accordingly, the reports are the same if the firm only does compilations without disclosure, or does reviews and compilations with disclosure.
- ◆ There is no longer a letter of comments as matters either go to:
 - Verbal or exit conference items.
 - FFCs (Findings for further consideration) that include recommendations. FFCs are retained by the administering entity and the team (system) or review (engagement) captain. They then get reviewed in subsequent engagements for repeat findings.
 - Report with pass with deficiency(ies) or fail report, both with recommendations. Both of these will result in a letter of response.

Revised Standards for Performing and Reporting on Peer Reviews (cont.)

- ◆ Accelerates the next peer review for firms that have had engagement or report reviews that do their first audit engagement.
- ◆ Other subjects covered include:
 - ◆ Organization of peer review teams
 - ◆ Selection of the right peer reviewer
 - ◆ Q&A about the AICPA Peer Review Program

On The Horizon

- ◆ **Exposure Drafts**
 - ◆ Lots of FASBs and ASBs

- ◆ **Convergence Areas**
 - ◆ Leases
 - ◆ Revenue recognition
 - ◆ Balance sheet changes

- ◆ **Private Company Standards**
 - ◆ We should know soon