



Statements on Standards for Accounting and Review Services No. 21 - Compliance and Implementation Issues

Panelists – Jim Newhard, John
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Moderated by Allison M. Henry

Learning Objectives and Outcomes

1. Hear about the changes brought about by the new SSARS No. 21.
2. Understand the key practice requirements and implementation issues.
3. Learn about the impact of the new standard on peer review.



SECTION 1 – OVERVIEW OF SSARS NO. 21

SSARS Clarity and Convergence Projects

- Clarity – ARSC applied the ASB clarity drafting conventions to the SSARS literature.
- Convergence – ARSC deferred converging its standards with the international compilation and review literature (IAASB standards) until the IAASB completes its update of that literature.

ARSC Clarity Standards

- Objectives
 - Address the concerns over length and complexity
 - Make standards easier to read, understand and implement
- Drafting Convention
 - Establish objectives for each clarified AR section
 - Include a definitions section where relevant.
 - Separate requirements from application and other explanatory materials
 - Use formatting techniques, such as bulleted lists, to enhance readability

SSARS No. 21

- Supercedes all SSARS through No. 20 except for SSARS 14, *Compilation of Proforma Financial Information*, which is currently being clarified
- Effective for engagements with financial statement periods ending on or after Dec. 15, 2015
- Early implementation is permitted
- Required to obtain a written agreement (engagement letter) – signed by both the client and the firm
- Review Report - Uses headings and requires the name of the city and state of the issuing firm [May use firm letterhead]

SSARS No. 21 - Key Revisions

1. Revised definition of compilation – Standard now only applies when **engaged** to perform a compilation
2. New standard for preparation of the financial statements – applies when **engaged** to prepare financial statements
3. Other – Moves guidance for accountants associated with the financial statements from AU 504 to the SSARS – Requires the practitioner to read and determine whether there are internal inconsistencies

New SSARS No. 21 Sections

- AR-C Section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*
- AR-C Section 70, *Preparation of Financial Statements*
- AR-C Section 80, *Compilation Engagements*
- AR-C Section 90, *Review of Financial Statements*

Pre SSARS No. 21, AR 80, *Compilations*

- Compilation standard - Applied when accountant is either
 1. Engaged to report on compiled financial statements, or
 2. Submits financial statements to the client or to 3rd parties [submission = “**prepare and present**”]
- Read and present engagement

AR-C 80, *Compilation Engagements*

- Compilation standard applies when an accountant is engaged to report on compiled financial statements
- Read only engagement
- SSARS No. 8, *Management Use Only* engagements are eliminated

AR-C 80, *Compilation Engagements*

- Report is always required
 - Report is shortened to differentiate from audit and review (assurance) reporting
 - Covers supplementary information
- Requires an engagement letter
- Retains the independence requirements from the current compilation standard

AR-C 70, Preparation of Financial Statements

- Applies when engaged to prepare FS, but not to perform an audit, review, or compilation on those financial statements
- Requires an engagement letter (signed by client and the CPA)
- Does not require independence

AR-C 70, Preparation of Financial Statements

- No report required
- Legend stating no assurance is being provided – the wording for this is flexible. For example, no CPA has performed an audit, compilation, or review
- If management refuses or cannot include the legend, the accountant could issue a disclaimer report, perform a compilation and issue a compilation report, or resign

Comparison of New SSARS

	AR C – 80, Compilations	AR C – 70 FS Preparation
When does the standard apply?	Engaged to compile	Engaged to prepare
Is an engagement letter required?	Yes	Yes
Is the accountant required to determine whether he or she is independent?	Yes	No
If the accountant is not independent, is that fact required to be disclosed?	Yes	NA
Does the engagement require a report?	Yes	No
May the FSs go to users outside of management?	Yes	Yes
May the FSs omit notes?	Yes	Yes

ANY
QUESTIONS
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ABOUT THE STANDARDS, APPLICABILITY, EOM AND OM PARAGRAPHS AND INDEPENDENCE

AR-C 70, Preparation of Financial Statements

- Question – If I have a bookkeeping client and I print the statements for the client, do I have to follow the new preparation standard?
- Answer – No. AR-C 70 only applies when a practitioner is engaged to prepare financial statements. Other similar situations include financial statements prepared in connection with business valuation services, litigation services, personal financial planning, and tax return preparation. Where the financial statements are a byproduct of the service, the new preparation standard would not need to be followed.

AR-C 70, *Preparation of Financial Statements*

- Question – If I prepare and issue a compilation report on a set of financial statements, have I performed a preparation engagement, a compilation engagement, or both?
- Answer
 - AR-C 70 is not applicable when you are engaged to perform an audit, review, or compilation.
 - Assisting with financial statement preparation in this situation would be a nonattest service.
 - Therefore, you have performed a compilation engagement and nonattest services.

SSARS No. 8 Management Use Only

- Question – Can I still perform a SSARS No. 8, *Management Use Only* compilation engagement?
- Answer – SSARS No. 21, which is effective for engagements on financial statements for periods ending on or after Dec. 15, 2015, supercedes SSARS No. 8.

Independence

- Question – Do I have to be independent on a preparation engagement?
- Answer – No. Because AR-C 70, *Financial Statement Preparation* is not an attest engagement, independence does not need to be maintained, evaluated, or disclosed. However, independence must be evaluated on compilation and review engagements.

Emphasis-of-Matter and Other-Matter Paragraphs

- Question – Does the new SSARS require emphasis of a matter or other matter paragraphs for certain situations?
- Answer – Unlike the pre-clarity SSARS, SSARS No. 21 requires the inclusion of an emphasis-of-matter, or other-matter paragraphs in certain situations.

Emphasis-of-Matter and Other-Matter Paragraphs

- Answer (continued) – Areas where emphasis-of-matter paragraphs or other-matter paragraphs are required include:
 - Financial statements are prepared using a special purpose framework
 - Material departures from the applicable financial reporting framework
 - Required supplementary information
 - Supplemental information
 - Matters that are fundamental to the user’s understanding that do not result in materially misstated financial statements
 - Impaired independence on a compilation engagement.



PRACTITIONER ISSUES

Disclosing Lack of Assurance on a Non-Disclosure Compilation

- Question – If no report is issued, how do you disclose the lack of assurance on a non-disclosure compilation?
- Answer –The lack of assurance on a non-disclosure compilation could be noted on the face of the financial statements or in a footnote.

AR-C 70, Preparation of Financial Statements – No Legend?

- Question – What if the client won't include a no assurance legend on each page of the financial statements?
- Answer – The practitioner should either issue a disclaimer of an opinion, or request that the client engage them to perform a compilation engagement.

AR-C 70, Preparation of Financial Statements - Legend

- Question – Does the accountants' name have to be included on the legend?
- Answer – No

Departure from Financial Reporting Framework

- Question –What do you do if the financial statements contain a departure from the stated financial reporting framework?
- Answer –The departure should be corrected, or disclosed in the footnotes or on the face of the statements.

Caveats

- Question – What are some potential pitfalls of the preparation standard?
- Answer
 - The practitioner is now required to evaluate the suitability of the financial statement framework
 - The accountant is precluded from preparing financial statements that omit substantially all disclosure when the client intend to use these statements to mislead users.



PRACTICE MANAGEMENT CONSIDERATIONS

Engagement Letters

- Question – Do I have to obtain an engagement letter for a compilation engagement?
- Answer – Yes. SSARS No. 21 requires the practitioner to obtain a written understanding of the terms of the agreement signed by both the CPA and management for review, compilation and preparation engagements.
 - Tip – Watch out for multi-year agreements that need to be updated to comply with the new standard.

Early Adoption

- Question –Can my firm early adopt SSARS No. 21? If so, does the new standard have to be early adopted for all engagements?
- Answer – The standard is effective for engagements with financial statement periods ending on or after Dec. 15, 2015. However, early adoption is permitted on an engagement by engagement basis.

Practice Management Considerations

- Question – Are there any other ramifications on my practice that I should consider?
- Answer – Yes. You may want to consider
 - Updating your firm’s quality control document
 - Ensuring that the firm’s practice aids are current
 - Revising engagement letter and reporting templates
 - Evaluating staff training for compliance [Tip - 2015 is a CPE reporting year for PA.]

AR-C Preparation of Financial Statements Impact on Peer Review

- Question – If my firm prepares financial statements under the new preparation standard, is it required to be enrolled in the AICPA peer review program and periodically undergo a peer review?
- Answer – It depends - If your firm does not have any attest engagements, it does not need to enroll in the peer review program and have a peer review performed, unless your firm is licensed in a state that requires peer review. [Pennsylvania does not require peer review for preparation engagements.]

Resources

- AICPA Guide Compilation and Review Engagements
- AICPA Alert Developments in Review, Compilation, and Financial Statement Preparation Engagements: Engagements Performed in Accordance with SSARs
- SSARS No. 21 – Pennsylvania CPA Journal
- PICPA On Demand with Michael Glynn
- [Why the change from submission?](#) JoA



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Review, Compilation and Preparation

SSARS No. 21

On October 23, 2014, the Accounting Review Services Committee issued Statement on Standards for Accounting and Review Services (SSARS) No. 21, *Statement on Standards for Accounting and Review Services: Clarification and Recodification*. SSARS No. 21 clarifies and revises the standards for reviews, compilations and engagements to prepare financial statements. It also includes significant revisions that affect the standards for accountants in public practice who prepare financial statements for their clients.

Quick Links

- [AICPA Guide Preparation, Compilation, and Review Engagements](#)
- [AICPA Alert Developments in Review, Compilation, and Financial Statement Preparation Engagements: Engagements Performed in Accordance with SSARSs](#)
- [SSARS No. 21 Statements on Standards for Accounting and Review Services: Clarification and Recodification](#)
- [SSARS No. 21 Resources](#)

Summary of SSARS No. 21

SSARS No. 21 is effective for engagements on financial statements for periods ending on or after December 15, 2015 but early implementation is permitted. The clarified and revised standards supersede all existing AR sections except for AR section 120, *Compilation of Pro Forma Financial Statements*, which is expected to be exposed for public comment in clarified format in 2015 along with a proposed standard on compilation of prospective financial information, which is currently addressed in the attestation standards.

SSARS No. 21 is composed of four sections, as follows:

- Section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*, is intended to help accountants better understand their professional responsibilities when performing engagements in accordance with SSARSs.
- Section 70, *Preparation of Financial Statements*, applies when the accountant is engaged to prepare financial statements but is not engaged to perform an audit, review or a compilation on those financial statements.
- Section 80, *Compilation Engagements*, applies when the accountant is engaged to perform a compilation engagement.
- Section 90, *Review of Financial Statements*, applies when the accountant is engaged to perform a review of financial statements.

Substantive changes to standards for compilations

Introduction to SSARS No. 21

SSARS 21

- Effective for periods on or after December 15, 2015
- Early implementation is permitted

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Michael Glynn, Senior Technical Manager-Audit and Attest Services, provides an overview of Statement on Standards for Accounting and Review Services No. 21.

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