



# **ARSC UPDATE**

## **NASBA 2013 REGIONAL MEETINGS**

Chas J. McElroy, CPA – Western  
Michael L. Brand, CPA - Eastern

# Session Objectives

- Discuss the SSARSs Clarity Project and expected significant differences with extant SSARSs
- Discuss Compilation Exposure Draft to be released in June 2013
- Questions regarding compilation and review engagement issues

# **SSARs Clarity Project and Proposed Changes to 101-3 and SSARs**

# Clarity Project Goals

- Address concerns over length and complexity of standards
- Make standards easier to read, understand and implement
- Lead to enhancements in engagement quality

# Clarity

- Similar to the ASB's clarity project
- All audit, review, compilation and attest literature will be in the same format

# Clarity

- SSARS will not be converged with international standards
  - Compilation engagements are not compatible
  - ARSC determined to converge review standard with AU-C section 930, *Interim Financial Information*

# Compilation Exposure Draft

# Compilations and Nonattest Services

- PEEC amended 101-3 to clarify that independence would not be impaired if a CPA designs or maintains internal controls for an attest client
  - Management must still accept responsibility for internal control
- With this confusion removed, PEEC further amended 101-3 to clarify that preparation of financial statements is a nonattest service
  - Subject to general requirements of 101-3
  - Consistent with new Yellow Book independence standards
- Effective for engagements covering periods beginning on or after December 15, 2014



# ARSC Reaction to PEEC

- Because PEEC has defined preparation as a non attest service, compilation, review and auditing standards all need to be revised to state that preparation or drafting is not part of the attest service, but rather a non attest service.
- Remove independence from compilation standard
  - By definition compilation becomes a non attest service
- Create a non attest compilation/preparation standard that puts requirements around what a CPA needs to do when preparing financial statements

# Compilation Exposure Draft

## ■ Independence Related Matters:

- a) Since compilation is a nonattest service independence (or lack thereof) is never required to be reported.
- b) Reporting is required when an accountant has a direct or material indirect financial interest in a client.
- c) Reporting is required when an accountant receives a contingent fee, commission, or referral fee.
- d) Accountant has **OPTION** of disclosing independence (or lack thereof)
- e) b and c above can be disclosed as is or simply “I (we) are not independent with XYZ Company.”
- f) If independence **and** reasons are disclosed **all** reasons must be disclosed.

# Compilation Exposure Draft

## ■ An Accountants Report is required when:

- a) The accountant is engaged or decides to report
- b) Financial statements contain departures from applicable framework and such departures are not disclosed in notes
- c) There is not an appropriate legend on financial statements indicating no assurance is provided by a CPA
- d) Accountant has a direct or material indirect financial interest (public interest)
- e) Account works for a contingent fee for a client (Rule 302)
- f) Accountant receives a commission or referral fee and third party will use financial statements (Rule 503)

# Compilation Exposure Draft

## ■ An Accountants Report is not required even if statements will go to third parties:

- If appropriate disclosure of applicable reporting framework is on each financial statement, and
- An appropriate legend indicating no assurance is provided is on each financial statement
- Legend example:
  - No CPA provides any assurance on these financial statements.
  - These financial statements have not been audited or reviewed and no CPA provides any assurance on them.

# Compilation Exposure Draft

## ■ Reasons ARSC supports legend for financial statements with third party use

- Compilation is a preparation service
- Compilation is a nonattest service
- Compilation service gives no assurance
- Modernizes standard for cloud bookkeeping and financial statement assistance
- Removes question in practice for years of submission
- Eliminates SSARS 8 question of financial statements going to third parties
- All departures from applicable framework have to be disclosed (unlike SSARS 8)
- CPAs and clients can use judgment as to whether to use legend or report (unless report is required)
- Will not change the peer review requirement

# Compilation Exposure Draft

## Example report:

The accompanying financial statements of XYZ Company as of and for the years ended December 31, 20X2 and 20X1 are the responsibility of management of XYZ Company. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by Accounting and Review Services Committee of the American Institute of Certified Public Accountants. **Such standards require me (us) to be objective in the performance of the engagement but do not require me (us) to determine whether I am (we are) independent.** I (we) did not audit or review the financial statements nor did I (we) perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not provide any form of assurance on these financial statements.

# Compilation Exposure Draft

## ■ Questions ARSC is asking in exposure draft:

1. The ARSC asks for specific feedback as to whether respondents are supportive of the repositioning of the compilation engagement as a nonattest service.
2. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed requirement that each page of the compiled financial statements include a statement or legend that no CPA provides any assurance on the financial statements or the accountant would be required to issue a report as a result of the compilation engagement.
3. The ARSC asks for specific feedback as to whether respondents are supportive of the proposal that would permit the accountant to not report on financial statements that omit substantially all disclosures provided that the financial statements include, within the statement or legend regarding the nonassurance element of the compilation engagement, a statement that the financial statements omit substantially all disclosures.

# Compilation Exposure Draft

## ■ Questions ARSC is asking in exposure draft: (cont.)

4. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed reporting requirements.
5. The ARSC asks for specific feedback as to whether respondents are supportive of the revised applicability of the compilation engagement.
6. The ARSC asks for specific feedback as to whether respondents are supportive of the requirement that the engagement letter or other suitable form of written communication be signed by (a) the accountant or the accountant's firm and (b) management.
7. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed effective date including whether early implementation should be permitted.



# **SSARs Clarity Project: Proposed Review SSARs**

# Review Exposure Draft

- **Changes to the review standard are not significant**
- **Exposure period has ended and comment letters are all available on the AICPA website**
- **ARSC will go through the comment letters for the proposed review standard in August**

# Next Steps

## ■ August ARSC Meeting

- Go through comment letters on proposed review standard
- Work on drafts of clarified SSARS framework and prospective reporting issues

## ■ November ARSC Meeting

- Vote out final clarified review standard
- Review comment letters and vote out clarified compilation standard

# Questions?

