

SSARS 19

The Accounting & Review Services committee has issued *Statement on Standards for Accounting & Review Services No. 19*. Generally the standard is effective for compilations and reviews of financial statements for periods ending on or after December 15, 2010.¹ The statement only allows early implementation of the provisions found in ¶2.21 related to the optional reporting on the accountant's lack of independence.

The standard modifies and supercedes AR sections 20, 50 and 100. The new Section 20 (found in paragraphs 1.x) is entitled “*Framework for Performing and Reporting on Compilation and Review Engagements*,” Section 50 deals with “*Compilation of Financial Statements*” in paragraphs 2.x, and Section 100 deals with “*Review of Financial Statements*” in paragraphs 3.x.

I. FRAMEWORK FOR PERFORMING AND REPORTING ON COMPILATION AND REVIEW ENGAGEMENTS (1.X)

The framework is divided into the following sections:

- Relevant Definitions
- Objectives and Limitations of Compilation and Review Engagements
- Professional Requirements
- Hierarchy of Compilation and Review Standards and Guidance
- Elements of a Compilation or Review Engagement
- Materiality

This standard primarily provides some basic definitions and concepts that apply throughout SSARS. It will apply for compilations and reviews of financial statements for periods ending on or after December 15, 2010.²

A. Definitions (1.4)

The definitions provisions outlines a number of definitions that are to be used throughout the standards. The standard adds verbiage to allow an ease of moving from US GAAP to another standard, presumably IFRS, by defining an “applicable financial reporting framework” to define such overarching accounting systems.

1 *Statement on Standards for Accounting and Review Services No. 19*, p. 3

2 *Statement on Standards for Accounting and Review Services No. 19*, ¶1.51

The definitions also define two categories of engagement a CPA may be performing. In an *assurance engagement* an accountant issues a report that is designed to enhance the degree of confidence of third parties and management about the outcome of an evaluation or measurement of financial statements against an applicable reporting framework (today normally GAAP or OCBOA). An *attest engagement* is any engagement that requires professional independence, as defined in the *Code of Professional Conduct*.³

The definition of submission of financial statements remains unchanged under SSARS 19, being defined as “Presenting to management financial statements that an accountant has prepared.”

B. Objectives and Limitations of Compilation and Review Engagements (1.5 to 1.9)

The new standard goes on to define compilations and reviews in terms very similar to those we have been used to in the past, though detailing a bit more the limitations. The standard does tell us that a compilation is not an assurance engagement, but it is an attest engagement.

This may seem confusing, since the standard does not change the rule that a CPA who is not independent may still perform a compilation engagement so long as the lack of independence is disclosed. However, the issue is that, unlike in a tax services engagement, the CPA is required to consult the applicable independence provisions of the *Code of Professional Ethics* to determine whether or not the CPA is independent. A CPA that does not disclose a lack of independence in a compilation report is effectively stating that the CPA is independent.

Conversely, a review is both an assurance engagement and an attest engagement. Reviews are meant to provide limited assurance that no material modifications need to be made to the statements to be in conformity with applicable reporting framework.

C. Professional Requirements (1.9 to 1.14)

A CPA has an obligation to consider the entire text of SSARS when performing a compilation or review engagement.⁴ However the use of terms in SSARS carries a special connotation about whether a CPA is required to perform a specific procedure.

SSARS has two categories of professional requirements that are indicated by the use of certain terms. An *unconditional requirement* is triggered where, in the standards, the words “must” or “is required” are used in connection with a procedure. Such procedures must always be complied with.

³ Statement on Standards for Accounting and Review Services No. 19, ¶1.4

⁴ Statement on Standards for Accounting and Review Services No. 19, ¶1.9

A *presumptively mandatory requirement* does not necessarily have to be followed in all cases, though it will be a rare event when it is not followed. If a CPA does depart from presumptively mandatory requirements, the CPA must adequately document the justification for departing from the requirement and how alternative procedures were sufficient to achieve the objectives of the requirement. Such presumptively mandatory requirements are noted in the standards by the use of the words “should.”⁵

As well, if a requirement is one that a CPA “should consider” the consideration of the requirement is presumptively required, but carrying out the action itself is not. Also, this wording convention applies only to SSARS and not to interpretive publications—thus, for those publications a “should” would simply mean the author finds it advisable to do something, not that it is presumptively required.

D. Hierarchy of Compilation and Review Standards and Guidance (1.15 to 1.25)

The framework outlines the hierarchy of standards for compilations and reviews. This serves two purposes. First, it lets the CPA resolve conflicts between the various types of guidance, as those higher on the hierarchy take precedence over those on lower levels. Second, it also tells the CPAs those sources the CPA is expected to be aware of and those for which such knowledge is not required.

For instance, a CPA is required to know the details found in AR 100 regarding compilations when performing a compilation engagement. But a CPA is not required, under professional standards, to be aware of what the authors at PPC might have to say on an issue in their Blue Book *Compilation and Review Engagements* guide. Similarly, if SSARS contains a provision that clearly conflicts with guidance found in that same PPC guide, the CPA is required to follow SSARS rather than the PPC guidance.

That does not make the PPC guide worthless—but it puts it into the proper perspective. The PPC guides are not the standards, but they a useful tool to be the CPA properly understands and is aware of the relevant provisions of the standards. Used that way, PPC manuals, CPE presentations, articles in publications, etc. are extremely useful sources for the CPA seeking to perform engagements in accordance with professional standards..

1. Compilation and Review Standards

At the top of the standards, subject to Rule 202 compliance by all CPAs, are the SSARS themselves, issued by the Accounting and Review Services Committee.⁶

⁵ Statement on Standards for Accounting and Review Services No. 19, ¶1.11

⁶ Statement on Standards for Accounting and Review Services No. 19, ¶1.16

Interpretive publications are the next category and consist of the following items:

- Compilation and review interpretations of SSARS
- Compilation and review guidance issued in AICPA Accounting and Auditing Guides
- AICPA Statements of Position to the extent they are applicable to compilation and review engagements⁷

These are not standards for accounting and review services, but rather recommendations on the application of SSARS in specific circumstances. While they are not standards, awareness of and consideration of these standards is a presumptively mandatory requirement of SSARS, and if the guidance is not followed a CPA must be prepared to justify how the CPA feels he/she did nevertheless comply with the provisions of SSARS that are addressed by this guidance.⁸

2. Other Compilation and Review Publications (1.20 to 1.21)

Next down are the unofficial guidance sources, which is basically everything not already listed. For these sources, the CPA needs to satisfy his/herself that the guidance is appropriate. If the guidance has been published by and reviewed by the AICPA are presumed to be appropriate according to the standards—but a CPA should pay attention to when the item was published and reviewed, since standards are constantly being updated.

For sources other than those from the AICPA, the accountant needs to do his/her own due diligence about the source. The standard suggests that the CPA should consider whether the publication is generally recognized as being helpful in understanding and applying SSARS and the degree to which the issuer or author is recognized as an authority in compilation and review matters.

Such guidance includes:

- AICPA Accounting and Review Publications not mentioned in the prior paragraphs of the standard;
- AICPA's *Annual Compilation and Review Alert*;
- Articles on compilations and reviews in the *Journal of Accountancy* and other professional journals;

⁷ Statement on Standards for Accounting and Review Services No. 19, ¶1.18

⁸ Statement on Standards for Accounting and Review Services No. 19, ¶1.19

- Continuing education materials
- Guidebooks on compilations and reviews (such as PPC's "Blue Book")

The standard specifically provides that, unlike the earlier guidance, a CPA is *not* expected to be aware of the full body of such other compilation and review materials.⁹

E. Elements of a Compilation or Review Engagement (1.26 to 1.47)

Paragraph 1.26 sets out five elements of a compilation and review engagement:

- A three party relationship involving management, an accountant, and intended users;
- An applicable financial reporting framework;
- Financial statements or financial information;
- In a review, sufficient appropriate review evidence and
- A written communication or report

1. Three Party Relationship (1.27 to 1.36)

In a SSARS engagement, there will be three parties:

1. Management (or the responsible party)
2. An accountant in the practice of public accounting and
3. The intended users of the financial statements or financial information (which may turn out to be only management or the responsible party)

Management. Management (or the responsible party) takes responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and takes responsibility for designing, implementing and maintaining internal control.

If management is unwilling to accept these responsibilities, a CPA is prohibited from issuing an unmodified compilation or review report on the financial statements or financial information.¹⁰

⁹ Statement on Standards for Accounting and Review Services No. 19, ¶1.20

¹⁰ Statement on Standards for Accounting and Review Services No. 19, ¶1.31

Accountants in the Practice of Public Accounting. The CPA in public accounting must possess sufficient knowledge of the accounting principles and practices of the industry to enable him/her to compile or review the financial statements in an appropriate form for the industry.¹¹

Intended Users. These users are the class of persons who understand the limitations of compilation or review engagements and financial statements. The CPA does not have a responsibility to identify intended users.

An intended user may request that additional procedures be performed by the CPA. Such services are outside the compilation or review engagement. A CPA may perform them along with a compilation or review engagement, but the CPA must comply with the applicable standards for such engagements.¹²

That is, the fact that an agreed upon procedures engagement is conducted at the same time as a compilation engagement does not give the CPA a “free pass” on the attestation standards that would otherwise govern the engagement on agreed upon procedures.

2. Applicable Financial Reporting Framework (1.37 to 1.39)

Management selects the applicable financial reporting framework, and also is responsible for making selections of particular accounting policy decisions required under the framework in question.¹³ A framework determines the form and content of financial statements, and needs to contain sufficiently broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.

SSARS specifically lists as example frameworks U.S. GAAP, IFRS and OCBOA.¹⁴ While the standard clearly leaves open the possibility of other frameworks, for most CPAs the most practical operating assumption is that a framework must be one of the identified three.

¹¹ *Statement on Standards for Accounting and Review Services No. 19*, ¶1.34

¹² *Statement on Standards for Accounting and Review Services No. 19*, ¶1.36

¹³ *Statement on Standards for Accounting and Review Services No. 19*, ¶1.37

¹⁴ *Statement on Standards for Accounting and Review Services No. 19*, ¶1.39

3. Financial Statement or Financial Information (1.40 to 1.42)

The applicable financial reporting framework determines whether a presentation is a complete set of financial statements. A CPA may be engaged to compile or review either a complete set of financial statements or a single financial statement. Management's exercise of judgments regarding accounting policies must be made within the context of the applicable financial reporting framework.

4. Evidence (1.43 to 1.45)

The standard holds that a CPA who performs a compilation engagement is not required to obtain information on the completeness or accuracy of the financial statements.¹⁵ However, CPAs who become aware of potential problems or issues, or should have become aware of such issues, do face responsibilities outlined in paragraph 2.13 of the standard regarding other compilation procedures.

In a review engagement, a CPA must perform procedures designed to obtain review evidence sufficient to provide a reasonable basis for obtaining limited assurance there are no material modifications that need to be made to the presentation in order for the presentation to be in conformity with the requirements of the applicable financial reporting framework.¹⁶

Evidence obtained through the performance of analytical procedures and inquiries will ordinarily provide the accountant with a reasonable basis for obtaining limited assurance.¹⁷

5. Compilation and Review Reports (1.46 to 1.47)

A CPA who performs a compilation engagement is required to issue a report or written communication unless the CPA withdraws from the engagement.¹⁸ The written communication option can only be used if the CPA has entered into a non-reporting, "management use" engagement in compliance with *Statement on Standards for Accounting and Review Services No. 19* ¶2.22-2.24.

For a review, only the report option is available unless the CPA withdraws.¹⁹

¹⁵ *Statement on Standards for Accounting and Review Services No. 19*, ¶1.43

¹⁶ *Statement on Standards for Accounting and Review Services No. 19*, ¶1.44

¹⁷ *Statement on Standards for Accounting and Review Services No. 19*, ¶1.45

¹⁸ *Statement on Standards for Accounting and Review Services No. 19*, ¶1.46

¹⁹ *Statement on Standards for Accounting and Review Services No. 19*, §1.47

A CPA who is not independent can issue a compilation report, but the CPA must comply with the compilation reporting requirements for a CPA who is not independent.²⁰ The standard offers no such similar option for a CPA who is performing a review engagement.²¹

F. Materiality (1.48 to 1.51)

Generally, a CPA looks to the discussion of materiality found in the applicable financial reporting framework to determine what is deemed material for a presentation.²² If the framework does not contain such a discussion of materiality, the standards provide a fallback discussion of materiality which provide:

- misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement or a combination of both; and
- judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.²³

In applying professional judgment regarding materiality the CPA is allowed to make the following assumptions that the users of the financial statements:

- have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented, and reviewed to levels of materiality;

²⁰ *Statement on Standards for Accounting and Review Services No. 19, ¶1.46*

²¹ The original exposure draft for SSARs 19 offered such an option. However, that provision was withdrawn for “further study” after the National Association of State Boards of Accounting (NASBA), along with a number of member state boards of accountancy, strongly objected to the inclusion of this option. While in theory the idea is still under consideration, it seems unlikely that we’ll see this implemented unless NASBA and the state boards withdraw their objections to the idea.

²² *Statement on Standards for Accounting and Review Services No. 19, ¶1.49*

²³ *Statement on Standards for Accounting and Review Services No. 19, ¶1.48*

- recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
- make reasonable economic decisions on the basis of the information in the financial statements.²⁴

II. COMPILATION OF FINANCIAL STATEMENTS

Paragraphs 2.xx of *Statement on Standards for Accounting and Review Services No. 19* outline the requirements for compilation engagements. As before, a CPA is required to comply with these standards in two cases:

- The CPA is engaged by the client to perform a compilation or
- The CPA submits financial statements to a client²⁵

The second trigger, which is continued from the prior standards, means a CPA may be required to perform a compilation without the client having specifically engaged the CPA to do so.

A. Establishing an Understanding (2.2 to 2.5)

A key change in this revision to the compilation standards is that the understanding with management now is presumptively required to be confirmed in writing with the client (the wording in the standard is “should document” rather than “should consider”). The understanding should include the following items:

- the objectives of the engagement;
- management's responsibilities;
- the accountant's responsibilities, and
- the limitations of the engagement.²⁶

The standard contains the following detailed list of items that should be included in any understanding with management and, if applicable, those charged with governance of the entity:

- The objective of a compilation is to assist management in presenting financial information in the form of financial statements.

²⁴ *Statement on Standards for Accounting and Review Services No. 19*, ¶1.50

²⁵ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.1

²⁶ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.2

Statements on Standards for Accounting & Review Services No. 19

- The accountant utilizes information that is the representation of management (owners) without undertaking to obtain any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements
- Management is responsible to prevent and detect fraud
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant.
- The accountant is responsible for conducting the engagement in accordance with SSARs issued by the AICPA.
- A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion or provide any assurance regarding the financial statements.
- The engagement cannot be relied upon to disclose errors, fraud, or illegal acts.
- The accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of compilation procedures that fraud or an illegal act may have occurred. The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.

- The effect of any independence impairments on the expected form of the accountant's compilation report, if applicable.²⁷

The standards contain a revised example engagement letter in Compilation Appendix A. This letter should be used for any compilation that will cover a period that ends after December 15, 2010.

The standards provide that an engagement letter can cover matters other than those noted above. A specific list of such items can be found in paragraph 2.4 of the standard.

If the statements are not expected to be used by a third party under circumstances where the standards would allow a CPA to enter into a non-reporting compilation engagement, the following additional matters, if applicable, should be included in the engagement letter:

- Material departures from the applicable financial reporting framework may exist, and the effects of those departures, if any, on the financial statements may not be disclosed.
- Substantially all disclosures (and statement of cash flows, if applicable) required by the applicable financial reporting framework may be omitted.
- Reference to supplementary information.²⁸

B. Compilation Performance Requirements (2.6 to 2.13)

While a compilation does not provide specific assurance to the user of a financial statement that no material modifications would need to be made to the statements in order for the statements to be in conformity with the applicable financial reporting framework, that does not mean there are not required procedures. In a litigation setting, a plaintiff would normally charge that a CPA had failed to perform, or negligently performed, one of the items noted below.

1. Understanding of the Industry (2.6 to 2.7)

The CPA needs to have (or be able to timely obtain) sufficient knowledge of the industry the client operates in to be able to compile financial statements in a form that are appropriate in form for an entity operating in that industry.

²⁷ *Statement on Standards for Accounting and Review Services No. 19, ¶2.3*

²⁸ *Statement on Standards for Accounting and Review Services No. 19, ¶2.5*

At a minimum this will mean that the CPA should be aware of such things as the existence of an AICPA Industry Auditing and Accounting guide for the industry in question, since these guides often contain industry specific accounting issues. These have generally been rolled into the Financial Accounting Codification maintained by the Financial Accounting Standards Board.

2. Knowledge of the Client (2.8 to 2.11)

The CPA should obtain information about the client itself, including both an understanding of the client's business and the accounting policies and practices used by the client.

A knowledge of the business includes understanding the client's business organization, its operating characteristics and the nature of its assets, liabilities, revenues and expenses. Normally the CPA obtains this information through experience with the entity, its industry and through inquiry of the client's personnel.

3. Reading the Financial Statements (2.12)

Before submission of a financial statement, the accountant is required to read the statements and critically consider whether such statements, on their face, are both appropriate in form and free of obvious material errors. Thus, the reading is more than a brief glance at the statements.²⁹

Notably, the requirement to consider if the statements are in proper form or free from obvious errors effectively means the CPA is technically giving some non-assurance comfort to users that the statements comply with the form required by the applicable financial reporting framework and, to the extent the accountant is aware of items, the disclosures and presentation is accordance with the requirements of the framework.

Failures to consider those issues are a failure to follow the compilation standards, which opens the firm up to both regulatory sanction and potential civil liabilities to those who claim they have relied upon the statements to their detriment.

²⁹ *Statement on Standards for Accounting and Review Services No. 19, ¶2.12*

4. Other Compilation Procedures (2.13)

It's never a good thing when a standards has a sentence beginning with "however"—and this section has such a sentence as the second sentence. While at first telling us the CPA has no requirement to make any inquiries or perform procedures to verify, corroborate or review information supplied by the entity, the standard then moves on to punch a large hole in this limitation.

If the CPA may have done more than the bare minimum noted above (which will almost always be the case), either in this engagement or from another prior engagement, that may cause the CPA to become aware that the information provided by the client is incorrect, incomplete or otherwise unsatisfactory (an amazingly broad term in the standard), as well as potentially suggesting that a fraud or illegal act may exist.

The standard provides that in these cases the CPA should request management consider the effect of these issues on the statements and then communicate the results to the accountant, and consider management's conclusions on the accountant's compilation report. The standard is using this rather odd approach mainly to emphasize that the statements are management's—the CPA compiling the statements does not get to unilaterally change the statements.

But the statement goes on to note that if the CPA believes that the statements may be materially misstated, the CPA should obtain additional or revised information. Thus, the standard continues to provide that a CPA cannot ignore the implications of information that he/she becomes aware of. If the entity refuses to provide the additional or revised information, the standard holds that it is presumptively required that the CPA withdraw from the engagement.

C. Documenting the Compilation Engagement (2.14 to 2.15)

The new standard imposes specific documentation requirements. The CPA must maintain documentation in sufficient detail to provide a clear understanding of the work performed. While documentation may be found outside the compilation documentation itself, the standard makes clear that oral explanations are deemed adequate only in "limited situations."³⁰ That's less strong than a statement in the standards that a CPA should maintain such documentation in written form, but it seem to nevertheless express a very strong preference for written documentation.

The standard specifies the following items should include the following items:

- The engagement letter documenting the understanding with the client

³⁰ Statement on Standards for Accounting and Review Services No. 19, ¶2.14

- Any findings or issues that, in the accountant's judgment, are significant (for example, the results of compilation procedures that indicate that the financial statements could be materially misstated, including actions taken to address such findings and, to the extent that the accountant had any questions or concerns as a result of his or her compilation procedures, how those issues were resolved)
- Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention³¹

If such documentation does not exist, the presumption will be that the action was not taken as the standard notes that documentation is the principal support for the representation that the accountant's work was performed in accordance with SSARS.³²

D. Reporting on the Financial Statements

The basic elements of the newly revised report as well as detailed guidance on specific situations are found in paragraphs 2.16 through 2.39.

The basic report is outlined first in paragraph 2.17:

Title. The accountant's compilation report should have a title that clearly indicates that it is the accountant's compilation report. The accountant may indicate that he or she is independent in the title, if applicable. Appropriate titles would be "Accountant's Compilation Report" or "Independent Accountant's Compilation Report."

Addressee. The accountant's report should be addressed as appropriate in the circumstances of the engagement.

Introductory paragraph. The introductory paragraph in the accountant's report should

- i. identify the entity whose financial statements have been compiled;
- ii. state that the financial statements have been compiled;
- iii. identify the financial statements that have been compiled;
- iv. specify the date or period covered by the financial statements; and

³¹ Statement on Standards for Accounting and Review Services No. 19, ¶2.15

³² Statement on Standards for Accounting and Review Services No. 19, ¶2.14

v. include a statement that the accountant has not audited or reviewed the financial statements and, accordingly, does not express an opinion or provide any assurance about whether the financial statements are in accordance with the applicable financial reporting framework.

Management's responsibility for the financial statements and for internal control over financial reporting. A statement that management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant's responsibility. A statement that the accountant's responsibility is to conduct the compilation in accordance with SSARSs issued by the AICPA. A statement that 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 the accountant. The manual or printed signature of the accounting firm or the accountant, as appropriate.

Date of the accountant's report. The date of the compilation report (the date of completion of the compilation should be used as the date of the accountant's report).³³

Compilation Exhibit B in *Statement on Standards for Accounting and Review Services No. 19* has illustrative compilation reports.

The accountant is directed to insure that each page of the financial statements makes reference to the report.³⁴

Even though we now have a reference to the applicable financial reporting framework, the standards continue to contain specific additional modifications to be made to OCBOA financials to highlight the differences from GAAP. It notes that financial statements prepared on an OCBOA basis are not considered appropriate in form unless:

- a description of the OCBOA, including a summary of significant accounting policies and a description of the primary differences from generally accepted accounting principles (GAAP). The effects of the differences need not be quantified.

³³ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.17

³⁴ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.18

- informative disclosures similar to those required by GAAP if the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.³⁵

As these are form departures, presumably if such information were not found in the financial statements themselves the accountant's report would be required to mention the departure.

1. Reporting on Financial Statements That Omit Substantially All Disclosures (2.20)

If the client elects to ask the CPA to compile financial statements that omit substantially all disclosures, the CPA can do so as long as the CPA does not believe this is being done with the intention of misleading those who may reasonably be expected to rely on the statements.

If the CPA does so, the accountant's report is modified by adding, immediately after the paragraph describing the accountant's responsibility, a paragraph that contains the following items:

- A statement that management has elected to omit substantially all the disclosures (and the statement of cash flows, if applicable) required by the applicable financial reporting framework (or ordinarily included in the financial statements if the financial statements are prepared in accordance with an OCBOA)
- A statement that if the omitted disclosures (and statement of cash flows, if applicable) 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 (or equivalent for presentations other than accounting principles generally accepted in the United States of America)
- A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters

The standard still allows management to elect to provide disclosures about only a few matters in such statements, with the same labeling as we had under the prior standards ("Selected Information—Substantially All Disclosures Required by [identify the applicable financial reporting framework (for example, "Accepted Accounting Principles Generally accepted in the United States of America")] Are Not Included.")

³⁵ *Statement on Standards for Accounting and Review Services No. 19, ¶2.19*

2. Reporting When the Accountant is Not Independent (2.21)

The one change under SSARS that CPAs may implement for statements covering periods ending before December 15, 2010 under this standard is found in the area of reporting when the CPA is not independent.³⁶

As was true previously, a CPA who is not independent must modify his/her compilation report to disclose the lack of independence. As well, the CPA may decide to do so just as before, disclosing the lack of independence but not disclosing the reason why the CPA lacks independence. That is done, as before, by having as the final paragraph of the accountant's report the following:

"I am (We are) not independent with respect to XYZ Company."

What is new is that the CPA is no longer prohibited from disclosing the reason(s) that he/she lacks independence. However, if a CPA chooses to disclose why independence is lacking, all issues that impair the CPA's independence must be disclosed. Such a requirement would seem to be an invitation for a plaintiff's attorney in litigation to dig to find some item that impacted independence that was not disclosed if the CPA elected to discuss his/her lack of independence. As such, a CPA electing to describe his/her lack of independence should do so only after consulting with legal counsel, the CPA's malpractice liability carrier and after a thorough review of all matters that could be seen to impact independence.

Examples of paragraphs disclosing the reason for a lack of independence are given in the standards:

- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company;
- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company;
or
- 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.

³⁶ Statement on Standards for Accounting and Review Services No. 19, ¶2.62

3. Communications When the Compiled Statements Are Not Expected to Be Used by a Third Party (2.22 to 2.24)

The non-reporting compilation that first appeared with the issuance of *Statement on Standards for Accounting and Review Services No. 8* is part of the revised standards. The same basic rules apply to these as applied before. Such statements must include a statement restricting their use on each page, and the CPA is directed to take action if the CPA becomes aware that a third party (meaning anyone outside of management) is using the statement.³⁷

The standards continue to indicate that if a CPA becomes aware that the financial statements are being distributed to third parties, the CPA should discuss the situation with the client and consider appropriate action, including requesting that the statements be returned. If the CPA requests the statements be returned and the client does not comply, the standards suggest the CPA should contact the third parties directly—but given the legally dicey position that puts the CPA in, the standards also suggest this be done in consultation with the CPA's attorney.³⁸

4. Emphasis of a Matter (2.25 to 2.26)

A CPA can include a paragraph in his/her report emphasizing a matter disclosed in the financial statements. Note that items not disclosed in the statements are not appropriate for an emphasis paragraph—rather, if the matter is one that is required to be disclosed, the CPA would be looking a departure covered by ¶2.27-2.29.

As well, an emphasis paragraph should not be used in statements in which management has elected to omit all disclosures, except for an item that has been disclosed in those statements. The standard directs a CPA to consult the provisions related to non-disclosure compilations and reports if the CPA believes the matter needs to be disclosed to keep the statements from being misleading.³⁹

Those standards would suggest that the CPA could attempt to persuade management to have the item as a selected disclosure. In that case, with the matter disclosed in the financial statements themselves, the CPA would be able to then emphasize the matter in his/her report if the CPA felt that was necessary.

³⁷ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.23

³⁸ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.24

³⁹ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.26

Or, in the alternative, if the CPA believes the statements would be misleading without that disclosure and management refuses to make it, it would appear that the CPA would be unable to issue a no disclosure compilation report, as ¶2.20 indicates a CPA cannot issue that report if the CPA believes that management intends the lack of disclosure to mislead users of the statements.

5. Departures from the Applicable Financial Reporting Framework (2.27 to 2.29)

If a CPA becomes aware that the financial statements contain a departure from the applicable financial reporting framework that is material to the financial statements and the statements are not to be revised to eliminate that departure, the CPA must take one of two actions.

If the CPA believes that modification of the compilation report is adequate, the departures should be disclosed in a separate paragraph of the report, including disclosure of the effects of the departure, if known. If the effects have not been determined, the CPA is not required to determine those effects so long as the report indicates that the effect of the departure has not been determined.⁴⁰

If the departure is so significant that the CPA believes a modification of the report is insufficient, the CPA should withdraw from the engagement and consult his/her legal counsel.⁴¹

6. Restricted Use Reports (2.30 to 2.39)

A general use report is one where the report is not restricted to specified parties. The standard indicates that while reports prepared in accordance with an applicable financial reporting framework normally are not restricted, a CPA is not prohibited from restricting the use of such a report.⁴²

A restricted use report is intended for use by only one or a limited number of parties.⁴³ If the financial statement or presentation is based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions not in conformity with an applicable financial reporting framework, the accountant should (meaning presumptively is required to) restrict the use of the report.

⁴⁰ *Statement on Standards for Accounting and Review Services No. 19, ¶2.28*

⁴¹ *Statement on Standards for Accounting and Review Services No. 19, ¶2.29*

⁴² *Statement on Standards for Accounting and Review Services No. 19, ¶2.30*

⁴³ *Statement on Standards for Accounting and Review Services No. 19, ¶2.31*

If a single report is issued to cover both a presentation that requires a restriction to specified parties and a presentation that does not require such a restriction, the report nevertheless should be issued as a restricted use report.⁴⁴ However, if the restricted use presentation is reported on separately in a document that also contains a general use presentation that is reported on separately, the report on the general use portion of the presentation can be a general use report.⁴⁵

An accountant can add additional parties at a later date to the restricted use report. However, if the report has been restricted due to contractual agreement issues or regulatory matters that require a restricted use report, the CPA should obtain an affirmative acknowledgement from the new users, preferably in writing, that they understand the nature of the engagement and the measurement or disclosure criteria used in the report. If the CPA reissues the report to list the parties, the date of the report should not be changed.⁴⁶

A CPA cannot unilaterally restrict a client from distributing the statements to other parties. However, the CPA should communicate to the client the restricted nature of the report issued, and the CPA and client can come to an agreement about limiting the distribution of the document. However, the CPA is not responsible for assuring that a restricted use report is not given to other parties, and those parties are put on the notice by the restricted report of the fact that they cannot rely upon that report.⁴⁷

7. Going Concern (2.40 – 2.43)

The standards indicate that information or evidence may come to a CPA's attention during the compilation that casts doubt upon the ability of the entity to continue as a going concern for a reasonable period of time, not to exceed one year. If the CPA comes to that conclusion, the CPA should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for disclosure.⁴⁸

⁴⁴ *Statement on Standards for Accounting and Review Services No. 19, ¶2.34*

⁴⁵ *Statement on Standards for Accounting and Review Services No. 19, ¶2.35*

⁴⁶ *Statement on Standards for Accounting and Review Services No. 19, ¶2.37*

⁴⁷ *Statement on Standards for Accounting and Review Services No. 19, ¶2.38*

⁴⁸ *Statement on Standards for Accounting and Review Services No. 19, ¶2.40*

If the CPA determines that management's conclusions are unreasonable, the CPA should treat the matter as a departure from an applicable financial reporting framework.⁴⁹ This would appear to be true despite the fact that the most widely used US applicable financial reporting framework (GAAP) has no disclosure guidance regarding a going concern issue—in effect, ARSC has made going concern disclose part of any applicable financial reporting framework for the outside CPA.

If management does disclose the uncertainty in its statements then (and only then) the CPA can include an emphasis paragraph discussing the matter.⁵⁰

E. Subsequent Events (2.44 – 2.46)

The standard deal briefly with the issue of subsequent events—that is, items that did not exist at the date of the financial statements but that could impact the financial statements. The CPA can encounter such items either when performing the compilation engagement or after the date of the report, but before release of the report.

In either case, the CPA should request that management consider the possible effects on the financial statements including disclosure.⁵¹ If management does not end adequately accounting for or disclosing the subsequent event, the CPA would follow the guidance for a departure from the applicable financial reporting framework.⁵²

F. Subsequent Discovery of Facts Existing at the Date of the Report (2.47 – 2.52)

A CPA may, after the date of the financial statements, become aware that facts which he or she was not aware of existed at the date of the report, and that those facts may have caused the CPA to believe the information supplied by the client was incorrect, incomplete, or otherwise unsatisfactory had the CPA been aware of these facts at the date of the report.

The standard begins by cautioning that due to the nature of such an event, the CPA should consider consulting with his/her legal counsel.⁵³

⁴⁹ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.42

⁵⁰ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.43

⁵¹ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.44

⁵² *Statement on Standards for Accounting and Review Services No. 19*, ¶2.45

⁵³ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.47

Statements on Standards for Accounting & Review Services No. 19

The standard notes that once a report is issued a CPA has no obligation to perform additional procedures for the compilation, but if the CPA does become aware of issues that existed at the date the report was issued, the CPA does then have an obligation under the standards.

A CPA should attempt to, as soon as practicable, determine the reliability of the information and whether the facts existed at the date of the report. The CPA should discuss the matter with the client and, if appropriate, with those responsible for governance. If the CPA determines that the report or financial statements would have been changed had this information been known to the CPA at the report date and that the CPA believes that persons are using or likely to use the prior report and statements who would attach importance to the information, the CPA should obtain additional or revised information.⁵⁴

If it is determined that action should be taken, the CPA should request that the client make disclosure of this information and their impact on the financial statements to those likely to be using the statement. If the client makes disclosure, it can take a number of forms:

- Revised financial statements could be issued for the prior period
- Disclosure could be made in soon to be released current period financial statements
- If revision would take a while to be completed, users of the statements should be notified not to rely on them, that revised statements are being prepared and, when applicable, a revised accountants report will be issued as soon as practicable

The CPA should take steps to satisfy him/herself that the client has made the above disclosures—that is, it's not enough simply to tell the client they should do this.⁵⁵

If the client will not cooperate, the CPA has a much more difficult situation to deal with, as the possibility of facing litigation grows dramatically, both from the client and from users. The standard does require that the CPA notify the client that if the client continues to refuse to take the notification steps noted above, the CPA will be forced to take the steps outlined below to notify users directly.

Unless the CPA's attorney counsels otherwise (and that's one big exception), the CPA should take the following steps:

- Notification to the client that the accountant's report must no longer be associated with the financial statements.

⁵⁴ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.48

⁵⁵ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.49, 2.50

Statements on Standards for Accounting & Review Services No. 19

- Notification to the regulatory agencies having jurisdiction over the client that the accountant's report should no longer be used.
- Notification to each person known to the accountant to be using the financial statements that the financial statements and the accountant's report should no longer be used.⁵⁶

The disclosures made by the CPA should be governed by the following principles:

- The disclosure should include a description of the nature of the subsequently acquired information and its effect on the financial statements.
- The information disclosed should be as precise and factual as possible and should not go beyond that which is reasonably necessary.
- Comments concerning the conduct or motives of any person should be avoided.
- If the client has not cooperated and the CPA does not have the detailed information, the disclosure can merely indicate that the client has not cooperated with the CPA's attempt to substantiate information that has come to his/her attention.

It is important to note that no disclosure should be made unless the CPA believes both that the statements are likely to be misleading and that the accountant's report should not be used.⁵⁷

G. Supplementary Information (2.53)

As was true before, a CPA should indicate the level of responsibility that he/she is accepting for any supplementary information accompanying the financial statements. The reference can either be in the main report, or the CPA may issue a separate report on the supplementary information.

H. Communicating to Management or Others (2.54 – 2.55)

If it comes to the CPA's attention during a compilation engagement that fraud or an illegal act may have occurred, the issue should be brought to the attention of the appropriate level of management. The standard provides that illegal acts that are clearly inconsequential do not need to be reported, but note that the standards does give the same option for fraud—effectively, there is no such thing as a “clearly inconsequential” fraud.

⁵⁶ *Statement on Standards for Accounting and Review Services No. 19, ¶2.51*

⁵⁷ *Statement on Standards for Accounting and Review Services No. 19, ¶2.52*

Statements on Standards for Accounting & Review Services No. 19

While the communication can be either written or oral, if the communication is oral the accountant should (meaning it is presumptively required that the CPA) document it. If the fraud or illegal act involves an owner of the business, the CPA should consider resigning from the engagement.⁵⁸

Due to the legal complexities, a CPA should consider consulting with an attorney prior to discussing any of the above matters with a third party.

If the fraud or illegal act is discovered that may have occurred to parties other than the client, ordinarily the accountant does not have responsibilities and, in fact, is generally prohibited from disclosing the matter to third parties due to ethical and legal responsibilities of confidentiality. Normally it would be up to the client to decide whether disclosure about this matter should be made to affected parties. However, in certain circumstances a duty may exist for the CPA to disclose:

- To comply with legal and regulatory requirements
- To successor accountants when the successor decides to communicate with the predecessor regarding acceptance of an engagement to compile or review a financial statement
- To comply with a subpoena.⁵⁹

I. Change in Engagement from Audit or Review to Compilation

If a CPA was originally engaged to audit or review a client's financial statements and the client later requests that the CPA step the engagement down to a compilation reporting engagement, the CPA must consider the reasons for the request in determining whether it is appropriate to agree to conduct a compilation.

A legitimate for reducing the nature of the engagement to a compilation would normally include a misunderstanding of the client initially on the nature of an audit, review and compilation service.⁶⁰

However, scope limitations are more troublesome issues. At a minimum, the existence of a scope limitation suggests that the information provided may be incomplete, incorrect or otherwise unsatisfactory, thus requiring the CPA address that matter in a compilation engagement.

⁵⁸ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.54

⁵⁹ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.55

⁶⁰ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.58

The standard also specifically provides that if a client prohibits the CPA from communicating with the client's attorney during an audit engagement, that would preclude the CPA from issuing a compilation report. Similarly, a client's refusal in an audit or review engagement to sign a management representation letter would be an event that would prevent the CPA from issuing a compilation report. In both of these cases while the procedure in question is not required as part of a compilation, the client's apparent attempt to use a compilation engagement to sidestep those requirements suggests very strongly that those procedures would have uncovered information that would result in the CPA deciding that information provided by the client was incomplete, incorrect or otherwise unsatisfactory.⁶¹

As well, if the audit or review is substantially complete or the cost to complete the engagement is insignificant, the CPA should be very suspicious of any request to step down the engagement.⁶² This again suggests that the client has a specific concern about what would be uncovered with the remaining procedures rather than having any realistic concern about incurring unnecessary costs.

III. REVIEW OF FINANCIAL STATEMENTS

Section 100 (Paragraphs 3.x) gives guidance on conducting a review of a financial statement. Unlike the old SSARS 1, the new SSARS separates the compilation and review guidance into their own sections.

The statement begins by carving out a limited exception to the applicability of SSARS to a review to coordinate with the review engagements found in the Auditing Standards. A CPA looks to *Statements on Auditing Standard No. 116, Interim Financial Statements* for the standards for a review rather than SSARS 19 when the following conditions are met:

- The entity's latest annual financial statements have been audited by the accountant or a predecessor
- The accountant has been engaged to audit the entity's current year financial statements, or the accountant audited the entity's latest annual financial statements and expects to be engaged to audit the current year financial statements
- The client prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the annual financial statements⁶³

⁶¹ *Statement on Standards for Accounting and Review Services No. 19*, ¶2.59

⁶² *Statement on Standards for Accounting and Review Services No. 19*, ¶2.60

⁶³ *Statement on Standards for Accounting and Review Services No. 19*, ¶3.1

The standard also continues the requirement that a CPA must not have his/her independence impaired in any fashion in order to issue a review report.⁶⁴ The continuation of this requirement was the major change made in the issued SSARS 19 as opposed to the prior exposure draft. While this was withdrawn for further study, the sources of the opposition to this change would appear to make it unlikely that we will see the option for a non-independent review anytime soon.

A. Establishing an Understanding (3.3 – 3.6)

As with a compilation, a CPA engaged to perform a review must establish an understanding with the client in writing.⁶⁵

The items to be included in the engagement have been modified, with new example Engagement Letters found in Review Exhibit A, “Illustrative Engagement Letter” of Statement on Standards for Accounting and Review Services No. 19. The new required matters per ¶3.4 to be included in the engagement letter are:

- The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- Management is responsible to prevent and detect fraud.
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant
- Management will provide the accountant, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.
- The accountant is responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.

⁶⁴ Statement on Standards for Accounting and Review Services No. 19, ¶3.2

⁶⁵ Statement on Standards for Accounting and Review Services No. 19, ¶3.3

Statements on Standards for Accounting & Review Services No. 19

- A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management.
- 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. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion regarding the financial statements as a whole.
- The engagement cannot be relied upon to disclose errors, fraud, or illegal acts.
- The accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of review procedures that fraud or an illegal act may have occurred. The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.

The engagement letter can contain other items, as was true of the compilation report, examples of which are contained in the standard as noted below:

- Fees and billings
- Any limitation of or other arrangements regarding the liability of the accountant or the client, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements)
- Conditions under which access to review documentation may be granted to others
- Additional services to be provided relating to regulatory requirements⁶⁶

For a review there is also another pair of presumptively mandatory matters that must be covered in the letter if the issues apply. They include:

⁶⁶ Statement on Standards for Accounting and Review Services No. 19, ¶3.5

- Material departures from the applicable financial reporting framework may exist, and the effects of those departures, if any, on the financial statements may not be disclosed.
- Reference to supplementary information.⁶⁷

Note that the first option appears to create a bit of an issue—you need the matter covered in the engagement letter if applicable, but you may not know it is applicable until you are underway with the engagement. Presumably that paragraph should be in every engagement letter unless a departure report would not be acceptable—in which case the client would have to choose between modifying the statements or not having the report issued.

B. Review Performance Requirements (3.7 – 3.13)

A CPA must have an understanding of the industry and knowledge of the client to perform a review engagement. The requirements for these two items duplicate the requirements found in the compilation portion of the standards.

C. Designing and Performing Review Procedures (3.14 – 3.24)

The CPA uses his/her understanding of the industry, knowledge of the client and awareness of the risk of failing to uncover a material misstatement to design and perform analytical procedures to obtain review evidence that will allow the CPA to obtain limited assurance that the statements are not materially misstated under the applicable financial reporting framework.⁶⁸

Analytical procedures and inquiries should be focused in areas that the CPA believes are most at risk for material misstatements, and should be aware that information uncovered by those procedures may change the accountant's assessment of the risk of misstatement (thus the accountant may need to modify procedures on the fly).⁶⁹

1. Analytical Procedures (3.16 – 3.18)

A CPA, to use analytical procedures, must identify the relationships among various pieces of data and the resulting financial representation on which the CPA is reporting. To be able to identify the relationships and data to be used, a CPA generally must make use of his/her knowledge of the industry and the client.⁷⁰

⁶⁷ *Statement on Standards for Accounting and Review Services No. 19*, ¶3.6

⁶⁸ *Statement on Standards for Accounting and Review Services No. 19*, ¶3.14

⁶⁹ *Statement on Standards for Accounting and Review Services No. 19*, ¶3.15

⁷⁰ *Statement on Standards for Accounting and Review Services No. 19*, ¶3.16

To use analytical procedures, a CPA must first develop an expectation for the relationship, and after having come to an expectation, test the actual relationship based on the data relevant to the financial representation ultimately being reported upon.

The standard identifies the following example sources of information from which a CPA may draw upon to help develop the initial expectation:

- Financial information for comparable prior period(s), giving consideration to known changes
- Anticipated results (for example, budgets or forecasts, including extrapolations from interim or annual data)
- Relationships among elements of financial information within the period
- Information regarding the industry in which the client operates (for example, gross margin information)
- Relationships of financial information with relevant nonfinancial information (for example, payroll costs to number of employees)

The tests should be performed at the detailed account level or at the financial statement level.⁷¹

Since the whole point of analytical procedures is to help the CPA obtain evidence to come to a conclusion about whether the financial statements contain material misstatements, the results of the analytical procedures must be evaluated to determine if the expected relationship was found to exist and, if not, what action that indicates the CPA should take based on the new information. The CPA may be required to perform other procedures outside of analytical review and inquiries of management if inadequate information exists to allow the CPA to get comfortable with the issues raised.⁷²

2. Inquiries and Other Review Procedures (3.19 – 3.20)

A list of “should consider” inquiries is contained in the new SSARs. As a “should consider” list, the CPA doesn’t necessarily have to actually make these inquiries, but the CPA has to demonstrate that the inquiry was considered, and what conclusion the CPA arrived at about the need to make each of these inquiries:

⁷¹ *Statement on Standards for Accounting and Review Services No. 19, ¶3.17*

⁷² *Statement on Standards for Accounting and Review Services No. 19, ¶3.18*

Statements on Standards for Accounting & Review Services No. 19

- Inquire of members of management who have responsibility for financial and accounting matters (or, if appropriate, others within the organization and/or those charged with governance) concerning the following:
 - Whether the financial statements have been prepared in conformity with the applicable financial reporting framework
 - The entity's accounting principles and practices and the methods followed in applying them and the entity's procedures for recording, classifying, and summarizing transactions and accumulating information for disclosure in the financial statements
 - Unusual or complex situations that may have an effect on the financial statements
 - Significant transactions occurring or recognized near the end of the reporting period
 - The status of uncorrected misstatements identified during the previous engagement
 - Questions that have arisen in the course of applying the review procedures
 - Events subsequent to the date of the financial statements that could have a material effect on the financial statements
 - Their knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements (for example, communications received from employees, former employees, or others)
 - Significant journal entries and other adjustments
 - Communications from regulatory agencies
- Inquire concerning actions taken at meetings of stockholders, the board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements
- Read the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with the applicable financial reporting framework

- Obtain reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees⁷³

3. Incorrect, Incomplete, or Otherwise Unsatisfactory Information (3.21)

If during the performance of review procedures, the CPA comes to believe that certain information provided is incorrect, incomplete or otherwise unsatisfactory, the CPA should first request that management consider the effects of the matters on the financial statements and communicate that result to the CPA. If, after considering management's response, the CPA believes the financial statements may be materially misstated, the CPA should perform additional procedures deemed necessary to obtain limited assurance that the statements are not materially misstated. If the CPA concludes the statements are materially misstated, the CPA should follow the guidance for departures from the applicable financial accounting framework found in paragraphs 3.34-3.36 of Statement on Standards for Accounting and Review Services No. 19.

4. Management Representations (3.22 – 3.24)

Written representations are required from management for all financial statements and periods covered by the accountant's review report—there is nothing optional in the standard in this regard. If current management was not present during all periods covered by the review, the CPA should nevertheless obtain written representations from current management for all periods (which will obviously be based on those items current management is or should be aware of).

The standard imposes a presumptively mandatory requirement that management provide a written representation on the following matters:

- Management's acknowledgment of its responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework
- Management's belief that the financial statements are fairly presented in accordance with the applicable financial reporting framework
- Management's acknowledgement of its responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements

⁷³ Statement on Standards for Accounting and Review Services No. 19, ¶3.19

Statements on Standards for Accounting & Review Services No. 19

- Management's acknowledgement of its responsibility to prevent and detect fraud
- Knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, including any communications received from employees, former employees, or others
- Management's full and truthful response to all inquiries
- Completeness of information
- Information concerning subsequent events

The standards notes that ordinarily the representations will include other matters relevant to the entity's business or entity—that is, the written representations should not be limited to the items noted above except in highly unusual cases.

An illustrative engagement letter under the revised standards can be found in Review Exhibit B of Statement on Standards for Accounting and Review Services No. 19.⁷⁴

In some cases, such as when there is an extended period of time after a representation letter is signed before the report is issued, or when a predecessor accountant is asked to reissue a report on a prior period, the CPA should obtain an updating representation letter. Such a letter, an example of which is found in Exhibit C of Statement on Standards for Accounting and Review Services No. 19, should state "(a) whether any information has come to management's attention that would cause management to believe that any of the previous representations should be modified and (b) whether any events have occurred subsequent to the balance sheet date of the latest financial statements reported on by the accountant that would require adjustment to or disclosure in those financial statements."⁷⁵

⁷⁴ Statement on Standards for Accounting and Review Services No. 19, ¶3.22

⁷⁵ Statement on Standards for Accounting and Review Services No. 19, ¶3.23

The representation letter should be dated as of the date of the accountant's review report. The standard does not require that the CPA have the letter as of that date so long as management has acknowledged they will sign the letter without modification prior to the release of the report. The letter should be addressed to the accountant. The accountant identifies those members of management that he/she believes are responsible for and knowledgeable about (either directly or indirectly through others in the organization) the matters covered. Normally the chief executive officer and chief financial officer (or those with equivalent positions) should, at a minimum, sign the letter.⁷⁶

In a small, closely held organization quite often those individuals will be the owner(s) of the enterprise and the controller or person primarily responsible for day to day accounting operations. Merely the act of asking these individuals to take responsibility in writing for having fully apprised the accountant of all relevant matters may serve to help the CPA discover that there is a potential misstatement in the financial statements, especially when the non-owner is the one balking at signing the letter. That person is subject to obvious influences by the owner, and this letter serves to make clear that person will not be able to claim "I was just following orders" if he/she has withheld pertinent information.

5. Documentation in a Review Engagement (3.25 – 3.26)

As was true in the compilation standard, the review standard holds that documentation is the principal support for the CPA's assertion that he/she complied with the requirements of SSARS in the engagement, and also, for a review, the principal support for the CPA's conclusion that no material modification is required for the statements to be in conformity with the requirements of the applicable financial reporting framework.⁷⁷

The standard generally notes that the form and content of the documentation depends on the circumstances of the engagement, but the standard does list the following items that the documentation should include:

- The engagement letter documenting the understanding with the client.
- The analytical procedures performed, including the following:
 - The expectations, when the expectations are not otherwise readily determinable from the documentation of the work performed, and the factors considered in the development of the expectations

⁷⁶ *Statement on Standards for Accounting and Review Services No. 19, ¶3.24*

⁷⁷ *Statement on Standards for Accounting and Review Services No. 19, ¶3.25*

Statements on Standards for Accounting & Review Services No. 19

- Results of the comparison of the expectations to the recorded amounts or ratios developed from recorded amounts
- Management's responses to the accountant's inquiries regarding fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount
- Any additional review procedures performed in response to significant unexpected differences arising from analytical procedures and the results of such additional procedures.
- The significant matters covered in the accountant's inquiry procedures and the responses thereto. The accountant may document the matters covered by the accountant's inquiry procedures and the responses thereto through a memorandum, checklist, or other means.
- Any findings or issues that, in the accountant's judgment, are significant (for example, the results of review procedures that indicate the financial statements could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached).
- Significant unusual matters that the accountant considered during the performance of the review procedures, including their disposition.
- Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention.
- The representation letter.⁷⁸

The materials can exist in more than one location. For a review, *oral explanation on their own do not represent sufficient support* for the work performed or conclusions reached, but they can be used by the accountant to clarify or explain information in the documentation.⁷⁹

As before, the practical effect is that if something is not documented, the CPA is treated as never performed the procedure, including coming to the CPA's conclusion on matters. The standards here is written much more strictly than is found in the compilation standards, even if the overall outline is similar.

⁷⁸ Statement on Standards for Accounting and Review Services No. 19, ¶3.26

⁷⁹ Statement on Standards for Accounting and Review Services No. 19, ¶3.26

6. Reporting on the Financial Statements

The standard review report is changed under the new standard. Example reports can be found in Review Exhibit D of Statement on Standards for Accounting and Review Services No. 19.

The basic elements of the report are found in paragraph 28 and are outlined as follows:

- *Title.* The accountant's review report should have a title that clearly indicates that it is the accountant's review report and includes the word independent. An appropriate title would be "Independent Accountant's Review Report."
- *Addressee.* The accountant's report should be addressed as required by the circumstances of the engagement.
- *Introductory paragraph.* The introductory paragraph in the accountant's report should
 - identify the entity whose financial statements have been reviewed;
 - state that the financial statements have been reviewed;
 - identify the financial statements that have been reviewed;
 - specify the date or period covered by the financial statements;
 - include a statement that a review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners); and
 - include a statement that 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, and that, accordingly, the accountant does not express such an opinion.
- *Management's responsibility for the financial statements.* A statement that management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

- *Accountant's responsibility.* A statement that the accountant's responsibility is to conduct the review in accordance with SSARs issued by the AICPA.

A statement that those standards require the accountant to perform the procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements.

A statement that the accountant believes that the results of his or her procedures provide a reasonable basis for his or her report.

- *Results of engagement.* A statement that, based on his or her review, the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework, other than those modifications, if any, indicated in the report.
- *Signature of the accountant.* The manual or printed signature of the accounting firm or the accountant, as appropriate.
- *Date of the accountant's report.* The date of the review report (the accountant's review report should not be dated earlier than the date on which the accountant has accumulated review evidence sufficient to provide a reasonable basis for concluding that the accountant has obtained limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework).

Each page of the financial statements should include a reference to the accountant's review report.

If a CPA is faced with the inability to perform the inquiry and analytical procedures that he/she considers necessary to obtain the limited assurance needed or the client fails to provide the CPA with a signed representation letter, the review is incomplete and a review report may not be issued.⁸⁰ Note that this is very different from an audit, where a CPA facing a scope limitation does still have reporting options. It may be possible for the CPA to issue a compilation report in such a situation, but the CPA needs to be aware that the compilation standards specifically caution about issues with dropping down to a compilation level of service in response to a scope limitation, especially if it is a client imposed limitation.

⁸⁰ Statement on Standards for Accounting and Review Services No. 19, ¶3.30

The CPA may issue a review report on only one statement, but only if the scope of his/her inquiry and analytical procedures have not been restricted.⁸¹

The same “special rules” for OCBOA statements are imposed for rules as for compilations earlier. SSARS serves to impose on OCBOA statements the same disclosure requirements discussed earlier regarding compilations.⁸²

7. Emphasis of a Matter (3.33)

As with a compilation, an emphasis paragraph can be added to a report, but only to emphasize a matter already disclosed in the main financial statements.

8. Departures From the Applicable Financial Reporting Framework (3.34 – 3.36)

As with a compilation, a CPA who discovers a departure from the applicable financial reporting framework in the financial statements brings the matter to the attention of management who should address the matter. If the actions of management are considered inadequate by the CPA, the CPA has to decide whether modification of the report will be sufficient to indicate the deficiencies of the financial statements taken as a whole.⁸³

If the CPA decides that a modification of the report will be sufficient, then the CPA discloses each departure under the same rules as were discussed for compilations.⁸⁴

If the CPA decides that modifications will be inadequate to indicate the deficiencies in the financial statements taken as a whole, the CPA should withdraw from the engagement. Consultation with the CPA's legal counsel is suggested in such circumstances.⁸⁵

9. Restricted Use Reports (3.37 – 3.46)

A discussion that is very similar to the discussion for compilation reports and restricted use is found in the review standards.

⁸¹ *Statement on Standards for Accounting and Review Services No. 19, ¶3.31*

⁸² *Statement on Standards for Accounting and Review Services No. 19, ¶3.32*

⁸³ *Statement on Standards for Accounting and Review Services No. 19, ¶3.34*

⁸⁴ *Statement on Standards for Accounting and Review Services No. 19, ¶3.35*

⁸⁵ *Statement on Standards for Accounting and Review Services No. 19, ¶3.36*

10. Going Concern (3.47 – 3.50)

The same “reasonable period/one year” going concern analysis is required for reviews as for compilations, again essentially imposing a disclosure requirement even if the applicable financial reporting framework does not have such a requirement. See the discussion in the compilation section of this section for more details.

11. Subsequent Events (3.51)

In a review the CPA approaches evidence of subsequent events in the same manner as discussed for compilations.

12. Subsequent Discovery of Facts Existing at the Date of the Report (3.54 – 3.59)

The discussion of a CPA that subsequently discovers facts that existed at the date of the report follows the same outline as we discussed for compilations.

13. Supplementary Information (3.60)

As with a compilation, a CPA who reviews financial statements that end up being accompanied by supplementary information must indicate the level of responsibility the CPA is taking with regard to that information. Unlike a compilation, in a review the CPA who has reviewed the basic financial statements is directed to indicate his/her level of responsibility, if any, for the supplementary information in the review report itself where the CPA gives limited assurance on the other data or indicates that the accountant does not express an opinion or give assurance on such information.

14. Communicating to Management and Others (3.61 – 3.62)

The discussion of the communications related to fraud and illegal acts mirrors the guidance found in the compilation standards.

15. Change in Engagement from Audit to Review (3.63 – 3.68)

Again, as with the compilation standards, the CPA is directed to consider why the client is requesting the engagement be scaled down to a review, primarily with an eye towards deciding whether the motivation for the change may be to prevent the CPA from uncovering a problem.

If the CPA finds the reason for the change is proper, the CPA can accept the request to scale down the engagement from an audit to a review.

16. Effective Date

No part of the new review standards is granted an early adoption option. Rather these standards will apply to engagements for periods ending on or after December 15, 2010

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