Compilation and Review Update

Presented by Werner - Rocca

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Current Developments

- SSARS No. 21, Statement on Standards for Accounting and Review Services: Clarification and Recodification - October 2014 (not so new)
- SARS No. 22 *Compilation of Pro Forma Information* – September 2016
- SSARS No 23 *Omnibus Statement on Standards for Accounting and Review Services-2016* – October 2016
- *Omnibus Statement of Standards for Accounting and Review Services-2018* – exposure draft

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Current Developments

- Reminder – ARSC completed the Clarity Project in October 2014 – SSARS No. 21, Statement on Standards for Accounting and Review Services: Clarification and Recodification
  - Conform compilation and review standards to clarity drafting conventions and make changes to existing standards
  - Clarified standards provide guidance related to the following engagements:
    - Preparation engagements
    - Compilation engagements
    - Review Engagements

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Difference in Engagements

	Assurance	Procedures	Reporting
Audit	Reasonable	Obtain sufficient appropriate audit evidence through risk assessment and audit procedures to obtain reasonable assurance FS are free of material misstatement	Audit report
Review (AR-C section 90)	Limited	Analytical procedures and inquiry to obtain limited assurance whether accountant is aware of any material modification that should be made to the FS.	Review Report
Compilation (AR-C section 80)	None	Assist management in the presentation of FS, no verification procedures	Compilation report
Preparation (AR-C section 70)	None	Prepare FS using documents, records & other information	No report. Add "no assurance provided on the FS"

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SSARS No. 22, Compilation of Pro Forma Financial Information

Pro Forma Financial Information – Effect on historical financial information if a consummated or proposed transaction occurred at an earlier date

Objective – accountant assists management in the presentation of pro forma information and report on that information in accordance with SSARS without providing assurance.

Effective date – Compilations of pro forma financial information dated on or after May 1, 2017

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SSARS No. 22, Compilation of Pro Forma Financial Information – Accepting the Engagement

- Accountant should obtain management's agreement that it understands its responsibility for:
  - Fairly prepare and present pro forma financial information in accordance with the applicable FRF
  - Ensure the FS on which pro forma financial information has been based has been audited, reviewed or compiled.
  - Include in a document that contains pro forma financial information the accountant/auditor's report and compiled, reviewed or audited FS of the entity for the most recent year, or if not available, preceding year.
  - Present a summary of significant assumptions with the pro forma information
  - Obtain the accountant's permission to include the compilation report in any document that contains the pro forma financial information.

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SSARS No. 22, Compilation of Pro Forma Financial Information – Compilation Procedures

- Ensure management has fulfilled its responsibilities
- Typical Compilation procedures (AR-C section 80, P 13-16)
  - Establish an understanding with the client and understand significant accounting policies (of each constituent component)
  - Understand the applicable financial reporting framework
  - Read FS – appropriate and free from obvious misstatement and consider also the underlying transaction/event and historical information
    - Is the underlying transaction/event, pro forma adjustments, significant assumptions and significant uncertainties about those assumptions appropriately described.
  - Obtain additional information if the accountant becomes aware that information supplied is incorrect
- Understand the underlying transaction/event

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SSARS No. 22, Compilation of Pro Forma Financial Information – Compilation Report

- Report elements required by AR-C section 80,
- Refer to historical financial statements from which information is derived and whether audited, reviewed, compiled.
- A reference to any modification of the audit, review or compilation report on the historical financial information.
- Description of the limitations and nature of the pro forma financial information.

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Illustrative Accountant's Compilation Report on Pro Forma Financial Information

Management is responsible for the accompanying pro forma condensed balance sheet of XYZ Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the financial statements of XYZ Company, on which I (we) performed a compilation engagement, and of ABC Company, on which other accountants performed a compilation engagement. The pro forma adjustments are based on management's assumptions described in Note 1. (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not examine or review the pro forma financial information nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on the pro forma financial information.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transaction (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above mentioned transaction (or event) actually occurred at such earlier date.

[Additional paragraph(s) may be added to emphasize certain matters relating to the compilation engagement or the subject matter.]

[Signature of accounting firm or accountant, as appropriate]
[Accountant's city and state]
[Date of the accountant's report]

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SSARS No. 22, Compilation of Pro Forma Financial Information – Documentation

- Engagement letter
- Results of procedures performed
- Pro forma financial information
- Accountant's compilation report

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SSARS No. 23, Omnibus Statement on Standards for Accounting and Review Services-2016

- **Prospective financial information** – Information about the future - can be complete financial statements or limited to one or more elements, items or accounts.
- **Objective** - is primarily to have SSARS apply to the preparation and compilation of prospective financial information (previously guidance was included in the Statement on Standards for Attestation Engagements)
- **Effective** for compilation reports dated after May 1, 2017 or prepared on or after May 1, 2017
- **Reviews are prohibited** on prospective financial information

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SSARS No. 23, Omnibus Statement on Standards for Accounting and Review Services-2016
Prospective Financial Information

- Typical Compilation procedures (AR-C section 80, P 13-16)
  - Establish an understanding with the client
  - Understand client and significant accounting policies (of each constituent component)
  - Understand the applicable financial reporting framework
  - Read FS – appropriate and free from obvious misstatement
  - Obtain additional information if the accountant becomes aware that information supplied is incorrect

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SSARS No. 23, Omnibus Statement on Standards for Accounting and Review Services-2016
Prospective Financial Information

- Compilation Report - Report elements required by AR-C section 80 and include statements that:
  - the accountant assumes no responsibility to update the report for events and circumstances that occur after report date
  - forecasted or projected results may not be achieved
- Summary of significant assumptions must be disclosed.
- If a projection:
  - Identification of hypothetical assumptions
  - Description of the limitations on the usefulness of the information.

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SSARS No. 23, Omnibus Statement on Standards for Accounting and Review Services-2016
Prospective Financial Information

- Accountant may prepare prospective financial information.
  - Summary of significant assumptions must be disclosed.
- If a projection:
  - Identification of hypothetical assumptions
  - Description of the limitations on the usefulness of the information.

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SSARS No. 23, Omnibus Statement on Standards for Accounting and Review Services-2016
Other

- Engagement letter – oral understanding is not sufficient
- Revised review report language relating to supplementary information
- Includes a mandatory requirement to document justification from presumptively mandatory requirements and how alternate procedures were sufficient

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Proposed Omnibus Statement on Standards for Accounting and Review Services-2018

- This standard adds a new AR-C section entitled Special Considerations—International Reporting Issues 100 to provide requirements and guidance when an accountant is engaged to perform a compilation or review in either of the following circumstances:
  - The financial statements have been prepared in accordance with a financial reporting framework generally accepted in another country.
  - The compilation or review is to be performed in accordance with both Statements on Standards for Accounting and Review Services (SSARSs) and another set of compilation or review standards.

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Proposed Omnibus Statement on Standards for Accounting and Review Services-2018

FRF Generally Accepted in Another Country

- In accepting the client:
  - Understand the FRF and determine if acceptable
  - Purpose of FS and if FRF is a fair presentation
  - Steps taken by management to determine whether FRF is acceptable

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Proposed Omnibus Statement on Standards for Accounting and Review Services-2018

FRF Generally Accepted in Another Country

- Comply with SSARS
- If financial statements are intended for use only outside of the United States, the accountant may use the report form and content of the other country

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Proposed Omnibus Statement on Standards for Accounting and Review Services-2018

SSARS and another set of standards

The accountant should obtain an understanding of and apply those relevant standards, as well as SSARS.

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Proposed Omnibus Statement on Standards for Accounting and Review Services-2018

SSARS and Another Set of Standards

Reporting only outside U.S. – use either

- A report in accordance with SSARS
- The report form and content in accordance with another set of compilation or review standards

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Proposed Omnibus Statement on Standards for Accounting and Review Services-2018

Reviews and Going Concern

- Specific written representation regarding disclosure of all information relevant to the use of the going concern assumption in the financial statements.
- SAS No. 132 extended auditor's requirements regarding consideration of going concern in a review of interim FS. The SSARS is harmonizing the requirements of AU-C Section 930 Interim Financial Information with those required in a SSARS review engagement.

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Proposed Omnibus Statement on Standards for Accounting and Review Services-2018

Reference to the work of other accountants in the **review report**

- If other accountant's reports includes restrictions, cannot refer to it.
- Provides guidance when the other accountant's review or audit report on a significant component is conducted in accordance with standards other than GAAS or SSARS
- Required communication to ensure other accountants understand ethical requirements.
- Guidance when the other accountant/auditor's report is on financials of a significant component that are prepared using a different FRF from that of the reporting entity.

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Common Errors on Review Engagements

- Management representation letter not obtained
- Report wording is incorrect
- Engagement letters – omissions and failure to obtain appropriate signatures
- Analytical procedures – failure to develop and document expectations or additional procedures performed

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Common Errors on Compilation Engagements

- Report wording is incorrect
- Failure to report substantially all required disclosures have been omitted
- Engagement letters – omissions and failure to obtain appropriate signatures
- Modification for lack of independence
- Omission of the statement of cash flows

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Management Representation Letters - Reviews

- The accountant is required to request written representations from members of management with appropriate responsibilities for the FS and knowledge of matters concerned.
- Must cover all periods presented and covered by the review report.
- Dated the same as the accountant's report, must be in accountant's possession before releasing report.
- Certain representations should be included – see standards
- Accountant must determine if its necessary to obtain other representations to support other review evidence.
- If management will not provide the representation letter, the accountant must withdraw.

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Engagement Letters

- Terms of an engagement must be agreed upon in writing
- Signed by the accountant and management/those charged with governance
- Include:
  - Objectives of the engagement
  - Accountant's responsibilities
  - Management's responsibilities
  - Limitations of the engagement
  - Identify the financial reporting framework
  - Expected form and content of the report (not for preparation engagements)
  - Statement that there may be circumstances when the report differs from expected form and content (not for preparation engagements).

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Analytical Procedures on a Review

- On a review the accountant should design and perform analytical procedures and make inquiries to obtain limited assurance.
- Comparison of recorded amount, or ratios developed from recorded amounts, with the accountant's expectations.
  - Expectations – developed by using plausible relationships reasonably expected to exist based on the accountant's knowledge of the industry and entity's business.
- Significant differences/fluctuations from expectations or other relationships – inquiry and if necessary other procedures
- Document results, evidence, findings and conclusions

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