



SSARS 21:

Some New Twists on a Familiar Theme

By Dr. Charles W. Stanley, CPA, and C. William Thomas, CPA, Ph.D.

Curriculum: Accounting

Level: Basic

Designed For: Public practice, primarily those who do accounting and review services

Objectives: To introduce practitioners to some of the major changes from SSARS 21

Key Topics: The new standards; organization of SSARS 21; general principles; financial statement preparation; compilation and review engagements; and other SSARS 21 changes

Prerequisites: None

Advanced Preparation: None

Accounting and review services comprise a major part of the practices of many CPAs. These non-audit services allow CPAs to assist their clients in presenting their financial information in the form of financial statements while providing either limited or no assurance to users. In October 2014, the Accounting and Review Services Committee (ARSC) of AICPA issued Statement on Standards for Accounting and Review Services (SSARS) No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AICPA, *Professional Standards*). In addition to redrafting and clarifying existing standards, SSARS 21 includes significant revisions for CPAs in public practice who prepare financial statements for their clients. This article summarizes these important revisions.

What's New?

Besides redrafting and clarifying existing standards, SSARS No. 21 carves out a new service, “financial statement preparation,” and this distinguishes it from a “compilation” engagement. The existing standard (AR Section 80) defines a compilation as “assisting management in presenting financial statements.” That standard requires CPAs to submit compilation reports on any such financial statements that are submitted to third parties. In today’s business environment, accountants work directly with their clients in differing environments to create financial statements, using interactive technology such as real time “cloud” systems, making it difficult to determine which entity actually “creates” the financial statements. Because of this ambiguity, accountants have often had to use a great deal of subjective judgment in deciding whether they should take credit for the preparation of the financial statements.

SSARS 21 draws a bright line between financial statement preparation (AR Section 70) engagements and compilation (revised AR Section 80) engagements, eliminating the requirement for accountants to issue compilation reports on financial statements they have merely helped prepare. Thus, they will no longer have to rely so much on subjective judgment to determine whether they have created financial statements for their clients.

What Clarification Means

The ARSC’s new drafting conventions include the following:

- Establish objectives for each clarified section.

- Include a definitions section, where relevant.
- Separate requirements from application and other explanatory material.
- Number application and other explanatory material paragraphs using A- prefix and present them in a separate section that follows the Requirements section.
- Use formatting techniques, such as bullet lists, to enhance readability.

The issuance of SSARS No. 21 supersedes almost all outstanding Statements on Standards for Accounting and Review Services through No. 20. The exception is SSARS No. 14, *Compilation of Pro Forma Financial Information, as amended* (AICPA, *Professional Standards*, AR Sec. 120). SSARS 14 is currently being redrafted and will be issued as a separate SSARS when finalized.

SSARS 21 is considered to be a stand-alone standard and does not represent the *Codification of Statements on Standards for Accounting and Review Services*. In addition to the previous SSARS, all compilation and review interpretations have been considered in the development of the clarified SSARS. Therefore, they have been incorporated accordingly or will be considered for inclusion in the new edition of the AICPA Guide *Review, Compilation and Financial Statement Preparation Engagements: Engagements Performed in Accordance with SSARS*.

SSARS 21 is effective for reviews, compilations and preparation of financial statements for periods ending on or after Dec. 15, 2015. Early implementation was permitted for all sections of SSARS 21.

Organization of SSARS 21

SSARS 21 is organized into four separate sections, as follows:

- Section 60, General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services. The purpose of this section is to provide general guidance and principles for accountants when performing SSARS engagements.
- Section 70, Preparation of Financial Statements. Section 70 is a new section that defines the term “financial statement preparation” and provides guidance to an accountant who has been engaged by an entity to prepare financial statements but not compile, review or audit them.
- Section 80, Compilation Engagements. This section revises the definition and provides guidance for any CPA engaged to perform a compilation on financial statements.
- Section 90, Review of Financial Statements. This section provides guidance when the CPA is engaged to perform a review of financial statements.

These four sections of SSARS No. 21 will be codified in the future in AICPA *Professional Standards* as AR-C sections using the same section numbers found in SSARS No. 21. Consistent with the objectives of clarifying the SSARS, each of the four sections that comprise SSARS No. 21 are organized as follows:

- Introduction – Discusses the scope of the section and effective

continued on next page

date. In addition, Sections 70, 80 and 90 also have a discussion concerning the type of engagement involved.

- Objective – Explains the purpose of the section.
- Definitions – Provides a glossary of terms with which the CPA should be familiar.
- Requirements – This segment provides the requirements that the CPA should follow with each type of engagement; this is the primary focus of each section and one on which the CPA should concentrate.
- Application and Other Explanatory Material – This segment provides the CPA with explanations and expansion on the requirements.
- Exhibits – Illustrations of the requirements and their applications.

The sections of the article that follow summarize changes in each of the four sections of SSARS No. 21.

Section 60 – General Principles

Section 60 – General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services, is intended to provide the general principles for performing financial statement preparation, compilation and review engagements. This section also provides the definitions of certain terms used throughout SSARSs when describing the professional requirements imposed on accountants performing all such engagements. This section is intended to help CPAs to understand their professional responsibilities when performing engagements in accordance with SSARS. In addition, where additional sections have been established with SSARS 21, additional requirements are based on the principles set forth in the general section. Any requirements that have been added by this section have been incorporated into the additional sections.

The accountant is expected to use professional judgment in all SSARS engagements, as well as comply with all applicable and relevant ethical rules. Section 1.310 of the AICPA *Code of Professional Conduct*, which requires compliance with applicable professional standards, lends authoritative weight to SSARS. In addition, Section 60 provides engagement-level quality controls for accepting and continuing clients for these types of engagements, professional competence, planning and supervision, documentation and reporting.

The application and other explanatory material segment of Section 60 provides examples of professional judgment, ethical requirements and compliance with the relevant AR-C sections.

Section 70 – Preparation of Financial Statements

Section 70 is new. It contains guidelines for CPAs performing engagements that involve preparation of financial statements for clients. Under this section, a CPA in public practice may be engaged by an entity to prepare financial statements, but not to perform an audit, review or compilation. This section *does not* apply to accountants who are not in public practice.

Because the preparation of the financial statements does not

involve audit, review or compilation services, *no report is required*. This includes situations in which the financial statements are to be used by, or presented to, third parties. The accountant is required to obtain an *engagement letter* signed by both the accountant and client management, to clarify the type of service being provided. In addition, the accountant is required to include a legend on each page of the financial statements stating “*no assurance is being provided.*” If, for some reason, the accountant is unable to provide such a statement on each page, the accountant is required to issue either a disclaimer stating that no assurance is being provided or to perform a compilation engagement and issue a compilation report.

Independence is not required of the client who performs financial statement preparation services. This is consistent with all other non-attest bookkeeping and accounting services engagements. The segments of Section 70 can be applied to the financial statements with or without disclosures (footnotes).

In determining what type of financial statement preparation services the accountant has been engaged to perform, he/she will be required to apply professional judgment. This determination will depend on whether the accountant has been engaged to prepare financial statements or merely assist in such preparation (assisting in the preparation of financial statements is a bookkeeping service that is not subject to SSARS).

Paragraph .A19 of the Appendix to Section 70 provides a table that lists examples of services for which Section 70 would apply and examples of services for which Section 70 would not apply. Although this list is not all-inclusive, examples where Section 70 would apply are:

- Preparation of financial statements prior to audit or review by another accountant.
- Preparation of financial statements for an entity to be presented alongside the entity’s tax return.
- Preparation of personal financial statements for presentation alongside a financial plan.
- Preparation of single financial statements, such as a balance sheet or income statement, or financial statements with substantially all disclosures (footnotes) omitted.
- Using the information in a general ledger to prepare financial statements outside of an accounting software system.

Examples of accountant services for which Section 70 would not apply include:

- Preparation of financial statements when the accountant is engaged to perform an audit, review or compilation of such financial statements.
- Preparation of financial statements with a tax return solely for submission to taxing authorities.
- Personal financial statements that are prepared for inclusion in written personal financial plans prepared by the accountant.
- Financial statements prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings.
- Financial statements prepared in conjunction with business valuation services.

- Maintaining depreciation schedules.
- Preparing or proposing certain adjustments, such as those applicable to deferred income taxes, depreciation or leases.
- Drafting financial statement notes.
- Entering general ledger transactions or processing payments (general bookkeeping) in an accounting software system.

Section 80 – Compilation Engagements

Section 80 of SSARS No. 21 contains significant changes to the performance of compilation engagements. Under the previous standard, the definition and requirements of the compilation standard applied whenever the accountant was engaged to report on or submitted compiled financial statements. Under the new standard, he/she no longer needs to determine whether the statements met the “submitted” requirement. Under the new standard, the accountant must actually be engaged to perform a compilation service for Section 80 to apply. Again, the terms of the engagement must be documented by an engagement letter signed by both the accountant and the client.

Section 80 states that the objective of the accountant in a compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements. He/she is also to report in accordance with Section 80 without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

Since Section 80 applies when the accountant is engaged to perform a compilation, he/she is always required to submit a compilation report. The suggested format of the compilation report has been streamlined and made more user-friendly than previous report formats. Most compilation reports will now be one paragraph. A number of examples of compilation reports have been included in Appendix C of Section 80.

Independence is still not a requirement for the accountant to perform a compilation engagement. However, the lack of independence must continue to be disclosed as a part of the compilation report. Also, Section 80 applies to financial statements with or without footnote disclosures.

With the issuance of SSARS No. 21 and the addition of Section 70 (Financial Statement Preparation), the accountant should now have a clear distinction in services that involve preparation (Section 70) and reporting (Section 80). There are several similarities and differences between the two sections.

For example, Section 80 applies only when the accountant has been engaged to perform a compilation. On the other hand, Section 70 applies when he/she is engaged to prepare financial statements, but not engaged to perform a compilation, review or audit. Both types of engagements require an engagement letter. While both types of engagements do not require independence by the accountant, compilation engagements do require the accountant to determine whether or not independence has been impaired. No such requirement exists with the financial statement preparation engagement. Likewise, the lack of independence must be disclosed

by the accountant in the compilation report. No such disclosure is applicable with financial statement preparation engagements, since these types of engagements do not require a report.

Section 90 – Review Engagements

In Section 90, the ARSC has once again made a number of changes to existing standards. However, many of the previous review requirements are still applicable. For example, the objective of a review is still to allow the accountant to issue a report that expresses limited assurance as to whether he/she is aware of any material modifications that should be made to the financial statements for them to be presented in conformity with the applicable financial reporting framework. This basis is obtained primarily through the performance of inquiry and analytical procedures.

One of the changes implemented by the new Section 90, stated in paragraph .01, is its applicability not only to engagements in which an accountant reviews financial statements, but also to engagements in which an accountant reviews other historical information. Examples of other historical financial information that he/she may be engaged to review, include, but are not limited to, the following:

- Specified elements, accounts or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes.
- Supplementary information.
- Required supplementary information.
- Financial information contained in a tax return.

Section 90 does not apply when the accountant is engaged to review interim financial information when:

- The latest financial audited statements are available.
- The accountant has been engaged to perform an audit.
- The accountant has audited the previous period’s financial statements and expects to audit the current year financial statements.
- The entity prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the audited financial statements.

As before, the accountant is required to obtain an engagement letter to perform a review services engagement. Additionally, the accountant performing review services must be independent from the client. A review is considered an attest engagement, and independence is required on all such engagements.

A significant change in the review report under SSARS No. 21 involves the addition of possible emphasis-of-matter and other-matter paragraphs. Existing review standards stated that emphasis paragraphs were not required. SSARS 21 requires the accountant to include such paragraphs in the review report for the following matters:

- Financial statements prepared in accordance with a special purpose framework.

continued on next page

- A changed reference to a departure from the applicable reporting framework when presenting comparative statements.
- Reporting on comparative statements when the prior period has been audited.
- Reporting on a known departure from the applicable financial reporting framework that is material.
- Reporting when dealing with subsequent discoveries of facts in which management revises the financial statements and such revision becomes known to the accountant after the release date.
- The review report on the revised statements differs from the original review report.
- Supplementary information that accompanies the statements and review report.
- Required supplementary information.

Similar to the clarified standards for audit reports, the accountant performing a review engagement is required to include an emphasis-of-matter paragraph in the review report when it is considered necessary to draw the user's attention to a financial statement matter that is of such importance that it is fundamental to the user's understanding of the financial statements. This assumes that the accountant does not believe the statements to be materially misstated.

Requiring the addition of other-matter paragraphs in review reports is also new under SSARS No. 21. Similar to the clarified reporting standards for audit reports, such a paragraph should be included when it is considered necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the professional judgment of the accountant, is relevant to the user's understanding of the review, the accountant's responsibilities, or the accountant's review report. When these additional paragraphs regarding an emphasis or other matter are included in the report, he/she is expected to communicate with management regarding these paragraphs and their wording. The Appendix to SSARS No. 21 contains more detailed discussion and examples of reporting wording.

Other SSARS 21 Changes

A major addition to SSARS No. 21 is the introduction of the term special purpose framework. Special purpose frameworks may apply to financial statements that are either compiled or reviewed. The term special purpose framework refers to a financial reporting framework **other than GAAP** that includes the following:

- Cash basis.
- Tax basis.
- Regulatory basis.
- Contractual basis.
- Financial reporting framework for small to medium-sized entities (FRF for SMEs).

These were formerly referred to as other comprehensive bases of accounting (OCBOA) in previous standards.

Two newly defined terms are introduced by SSARS 21. These two new terms are: Required supplementary information and designated accounting standard setter.

Required supplementary information – Information that a designated accounting standard setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standard setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of the information have been established.

Designated accounting standard setter – A body designated by the Council of AICPA to promulgate GAAP pursuant to the "Compliance with Standards" and "Accounting Principles" rules of the AICPA *Code of Professional Conduct*.

Other-matter paragraph is required in the compilation or review report to refer to the required supplementary information and establish requirements for the following:

- The required supplementary information is included and the accountant performed a compilation engagement on the required supplementary information or he/she reviewed the required supplementary information.
- The required supplementary information is included and the accountant did not perform a compilation, review or audit on the required supplementary information.
- The required supplementary information is omitted.
- Some required supplementary information is missing and some is presented in accordance with the prescribed guidelines.
- The accountant has identified departures from the prescribed guidelines.
- The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

Additional CPE May Be Required

This article provides a brief overview of SSARS No. 21. It was developed from material provided by two AICPA publications: *Statements on Standards for Accounting and Review Services: Clarification and Recodification*, AICPA, 2014, and *Developments in Review, Compilation, and Financial Statement Preparation Engagements, 2014-2015*, AICPA, 2014.

CPAs should become familiar with the details of SSARS 21 when performing financial statement preparation, compilation or review services engagements after Dec. 15, 2015. CPAs are advised to take additional CPE courses that provide more in-depth training for these types of engagements. ■

Dr. Charles W. Stanley, CPA

is associate professor of accounting at Baylor University.

C. William Thomas, CPA, Ph.D.

is J.E. Bush professor of accounting at Baylor University. He can be contacted at Bill_Thomas@baylor.edu.