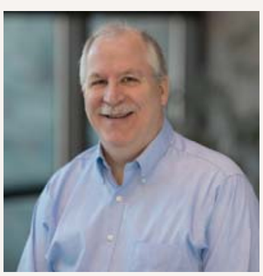
2023-24 Compilation and Review Update

ACE SEMINARS

Kenn Heaslip Seminars, LLC



Kenneth Heaslip, MS, MBA, CPA, CGMA, licensed as a CPA in New Jersey, has extensive experience teaching all levels of accounting, auditing, and in other practice-related areas. Kenn Serves as a Director of Cullari Carrico, LLC, a regional CPA firm in New Jersey. He is an active member of the New Jersey Society of CPAs where he has served as Vice President, Trustee, Chapter President, Committee Chair and Task Force Chair. Kenn currently serves on the NJCPA Professional Conduct Committee and is a Director at Cullari Carrico LLC, a regional CPA firm in Northern New Jersey.

Kenn has been a Professor of Accounting at several universities including Seton Hall where he was the students' choice as "Educator of the Year" two years in a row, and in the Executive MBA programs of Rutgers University and Stevens Institute. He previously was the National Director of the Becker CPA Review in charge of all course materials and instruction. Kenn earned his B.A. from Rutgers University and has an MS in Taxation and MBA in Finance from Seton Hall University.

Kenn is also the managing member of Kenn Heaslip Seminars, LLC.

Course Objectives

The program will bring participants up to date with:

- Financial reporting frameworks
- Distinguishing special purpose frameworks from GAAP
- CPAs reporting on financial statements
- Financial statement disclosures
- Recently issued ethics standards
- Peer Review Deficiencies

Anacronyms Used (1 of 2)

AICPA	American Institute of CPAs
ARSC	Accounting and Review Services Committee
ASB	Auditing Standards Board
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CPEA	Center for Plain English Accounting
EQCR	Engagement Quality Control Review
FASB	Financial Accounting Standards Board

Anacronyms Used (2 of 2)

NASBA	National Association of State Boards of Accountancy
OCBOA	Other Comprehensive Basis of Accounting
PCC	Private Company Counsel
PEEC	Professional Ethics Executive Committee
SPF	Special Purpose Framework
SQMS	Statements on Quality Management Standards
SSAE	Statements on Standards for Attestation Engagements
SSARS	Statements on Standards for Accounting and Review Services

Course Outline

Chapter 1 - Introduction

Chapter 2 - Financial Statement Frameworks

Chapter 3 - SSARS Overview

Chapter 4 - Preparation Engagements

Chapter 5 - Compilation Engagements

Chapter 6 - Review Engagements

Chapter 7 - Special Situations in SSARS Reporting

Chapter 8 - SSARS 25

Appendix – Selected Ethics Rulings Affecting SSARS Engagements

CHAPTER 1

Introduction

Tenants 1136 Case

- Max Rothenberg – NYC CPA
- Engaged to prepare unaudited financial statements
- Engagement Fee - $600
- Marked every page "unaudited"
- Performed
  - Inquiry
  - Some analytical procedures
  - Search for unrecorded liabilities
  - Confirmations

Tenants 1136 Case

- Prepared income statements
  - Prepared by Max Rothenberg
  - One line item said “auditor fees”
- Jury assessed over $200,000 liability
- Takeaways
  - Need to establish an understanding with the client
  - Need to establish an understanding with the user
  - CPA is responsible for work performed regardless of what the were engaged to do.

Tenants 1136 Case

- Prepared income statements
  - Prepared by Max Rothenberg
  - One line item said “auditor fees”
- Jury assessed over $200,000 liability
- Takeaways
  - Need to establish an understanding with the client
  - Need to establish an understanding with the user
  - CPA is responsible for work performed regardless of what the were engaged to do.

Services Provided by CPAs

- Financial statement preparation
- Bookkeeping
- Tax preparation
- Data input services
- Assistance with adjusting journal entries
- Other nonattest services
- Reporting on financial statements

Nonattest Services (ET 1.295)

- Advisory services
- Appraisal, valuation, and actuarial services
- Benefit plan administration
- **Bookkeeping, payroll and other disbursements**
- Business risk consulting
- Corporate finance consulting
- Executive or employee recruiting
- Forensic accounting
- **Hosting services**
- Information systems design, installation, or integration
- Internal audit
- Investment advisory or management
- **Tax services**

Overriding Principles

Question for discussion:

If you are a New Jersey CPA, when you renew your license, they ask the following question:

> Does your employer or firm or do you, issue audited, reviewed or compiled financial statements?

How would you answer that question?

Overriding Principles

- Financial statements are the responsibility of _________.

Overriding Principles

- Reporting on financial statements is the responsibility of ______________.

15

Framework vs SSARS

- The **Framework is the method used to prepare financial statements**. It is determined by management
- **SSARS are the standards used by the outside CPA after determining the degree of assurance given** on the financial statements
- The two concepts are distinct and have **no interdependence**

16

SSARS Standards

- Standards set by the **Accounting and Review Services Committee** (ARSC)
- **Authoritative documents**
  - SSARS Standards
  - AICPA Preparation, Compilation, and Review Engagement Guide

SSARS History (1 of 5)

- **SSARS 1** – *Compilation and Review of Financial Statements* (1978)
- **SSARS 2** – *Reporting on Comparative Financial Statements* (1979)
- **SSARS 3** – *Compilation Reports on Financial Statements Included in Certain Prescribed Forms* (1981)
- **SSARS 4** – *Communications Between Predecessor and Successor Accountants* (1982)
- **SSARS 5** – *Reporting on Compiled Financial Statements* (1982)
- **SSARS 6** – *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* (1986)
- **SSARS 7** – *Omnibus Statements on Standards for Accounting and Review Services* (1992)

SSARS History (2 of 5)

- **SSARS 8** – *Amendment to Statement on Standards for Accounting and Review Services No. 1, Compilation and Review of Financial Statements* (2000)
- **SSARS 9** – *Omnibus Statement on Standards for Accounting and Review Services* (2002)
- **SSARS 10** – *Performance of Review Engagements* (2004)
- **SSARS 11** – *Standards for Accounting and Review Services* (2004)
- **SSARS 12** – *Omnibus Statement on Standards for Accounting and Review Services* (2005)
- **SSARS 13** – *Compilation of Specified Elements, Accounts, or Items of a Financial Statement* (2005)
- **SSARS 14** – *Compilation of Pro Forma Financial* (2005)

SSARS History (3 of 5)

- **SSARS 15** – *Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services* (2007)
- **SSARS 16** – *Defining Professional Requirements in Statements on Standards for Accounting and Review Services* (2007)
- **SSARS 17** – *Omnibus Statement on Standards for Accounting and Review Services* (2008)
- **SSARS 18** – *Applicability of Statements on Standards for Accounting and Review Services* (2009)
- **SSARS 19** – *Compilation and Review Engagements* (2009)
- **SSARS 20** – *Revised Applicability of Statements on Standards for Accounting and Review Services* (2011)

SSARS History (4 of 5)

- **SSARS 21** – Statements on Standards for Accounting and Review Services: Clarification and Recodification (2014)
- **SSARS 22** – Compilation of Pro Forma Financial Information (2016)
- **SSARS 23** – Omnibus Statement on Standards for Accounting and Review Services (2016)
  - Technical Corrections
  - Supplemental Information
- **SSARS 24** – Omnibus Statement on Standards for Accounting and Review Services (2018)
  - International Reporting
  - Going Concern
  - Technical Corrections

Kenn Heaslip Seminars, LLC

SSARS History (5 of 5)

- **SSARS 25** – Materiality in a Review of Financial Statements and Adverse Conclusions (2020)
- **SSARS 26** – Quality Management for an Engagement Conducted in Accordance With the Statements on Standards for Accounting and Review Services (2022)

Kenn Heaslip Seminars, LLC

Structure of SSARS

- **AR-C Section 60** – *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services.*
- **AR-C Section 70** – *Preparation of Financial Statements*.
- **AR-C Section 80** – *Compilation Engagements*.
- **AR-C Section 90** – *Review of Financial Statements*.
- **AR-C Section 100** – *Special Considerations – International Reporting Issues*.
- **AR-C Section 120** – *Compilations of Pro Forma Financial Information*.

Dual Meaning of "Preparation"

- Preparation of Financial Statements (nonattest)
  - Services defined in ET 1.295
- Preparation Services
  - Services defined in AR-C 70

CHAPTER 2

Financial Statement Frameworks

Financial Statement Frameworks

- GAAP
  - FASB (United States)
  - IASB (International) (IFRS)
- Special Purpose Frameworks (AU-C 800 – Clarified with SAS 125)(AR-C 60.A13)
  - Cash
  - Tax
  - Regulatory
  - Contractual
  - Other (Added with SAS 127)

Brief History of Private Company Reporting

- 1973 – FASB, an independent standard setting board replaced the AICPA's Accounting Principles Board
- 1989 – The Auditing Standards Board issues SAS 62, *Other Comprehensive Basis of Accounting* (OCBOA)
- 2007 – Private Company Financial Reporting Committee (PCFRC) is established to make recommendations to the FASB related to private company issues. 2010 – A Blue Ribbon Panel commissioned by the AICPA, NASBA, and FAF recommends that a separate standard setting body be established to issue accounting standards for private companies. The recommendation is rejected.
- 2012 – FASB establishes the Private Company Council (PCC) to replace the PCRFC.
  - FASB must vote on all PCC recommendations
  - A member of the FASB must sit in on all PCC meetings

FRF for SMEs

- 2013 – The AICPA issues the Financial Reporting Framework for Small- and Medium- Sized Entities (FRF for SMEs).
  - Issued as a non-authoritative framework
  - NASBA issued a press release stating that Boards of Accountancy should consider revoking the license of any CPA who is associated with non-authoritative frameworks.
  - Started a discussion on the use of special purpose frameworks and the importance of using an authoritative framework

Special Purpose Frameworks (AR-C 60.A13 and AU-C 800)

- **Cash basis** – A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation of fixed assets)
- **Tax basis** – A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements
- **Regulatory basis** – A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission)
- **Contractual basis** – A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the auditor
- **Other basis** – A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

Special Purpose Frameworks

Before issuing any financial statements, including SPFs, a CPA should

- Have a strong knowledge of GAAP and disclosures
- Not be associated with financial statements that are misleading
- Must have knowledge of AICPA established best practices

Special Purpose Frameworks

- **SPFs work best of entities**:
  - For profit
  - Does not need GAAP statements
  - Owners are also management
  - Management regularly reviews financial statements
  - With less complicated transactions
  - Where creditors have easy access to management when clarifications are needed

Kenn Heaslip Seminars, LLC

Special Purpose Frameworks Disclosures

Disclosures:

- **Summary of significant accounting policies**
  - Describe the framework used
  - Describe the primary differences between the framework and GAAP
- Must **communicate the substance of GAAP** disclosures
  - Do not have to follow required GAAP format

Kenn Heaslip Seminars, LLC

Special Purpose Frameworks Disclosures

- **Types of disclosures**
  - Those that are measured by the SPF – Disclose similar to GAAP
  - Those that are not measured by the SPF - No disclosure requirement
    - Deferred income taxes
    - Impairments
    - Pensions
    - Fair value
  - Those that may be necessary
    - Risks and uncertainties
    - Contingent liabilities
    - Future purchase commitments
    - Subsequent events

Kenn Heaslip Seminars, LLC

Special Purpose Frameworks

- Statements of Retained Earnings and Cash Flow Statements are **optional.**
- **Titles** of statements must indicate the framework used
- Examples
  - Statement of Assets, Liabilities and Owners' Equity – Tax Basis
  - Statement of Revenues and Expenses – Tax Basis
  - Statement of Cash Flows – Tax Basis

Kenn Heaslip Seminars, LLC

Special Purpose Frameworks

- Statements of Retained Earnings and Cash Flow Statements are **optional.**
- **Titles** of statements must indicate the framework used
- Examples
  - Statement of Assets, Liabilities and Owners' Equity – Tax Basis
  - Statement of Revenues and Expenses – Tax Basis
  - Statement of Cash Flows – Tax Basis

Kenn Heaslip Seminars, LLC

Special Purpose Frameworks Peer Review Issues

- Failure to get signed engagements letters
- Incomplete or missing management representations in a review engagement
- Incorrect statement titles or format
- Missing references to supplementary information
- Failure to note that management has elected to omit substantially all disclosures
- No references to report on face of financial statements
- Failure to disclose departures from the SPF
- Using incorrect compilation or review report language
  - Statements names in report differ from those on the financials
  - Missing accountants' address

Kenn Heaslip Seminars, LLC

Special Purpose Frameworks Peer Review Issues

- Independence
  - Failure to disclose lack of independence in a compilation report
  - Disclosure of lack of independence in a review report
- Omission of significant accounting policies
- Incomplete disclosures of significant accounting policies
  - Failure to state the basis of accounting
  - Not describing the differences between the SPF and GAAP
  - Departures from the SPF missing
  - Use of estimates
  - Methods of revenue recognition
- Inclusion of information not part of the SPF
- Incorrect reporting in the statement of cash flows

Kenn Heaslip Seminars, LLC

Special Purpose Frameworks Peer Review Issues

- Accountant's report incorrect
- Failure of firm to properly register with the State
- Inadequate documentation
  - Quality control procedures
  - Engagement letter
  - The report was read
  - Inquiry performed
  - Analytical procedures performed
  - Management representation letter
  - Engagement findings and resolution of issues raised
  - Evaluation of Independence

Kenn Heaslip Seminars, LLC

Tax Basis Financial Statements

Differences between GAAP and Tax Basis:

- Allowance for doubtful accounts vs. direct write off
- Income received in advance
- Warranty liability
- Compensated absences
- Leases
- Interest capitalization
- Percentage of completion
- Loss accruals
- Closely-held investments
- Investments in debt and equity securities
- Consolidation
- Impairment of loans
- Impairment of long-lived assets
- Employee benefits
- Discounts on debt
- Revenue recognition
- Income taxes
- Inventory valuation
- Exchanges of nonmonetary assets and involuntary conversions
- Depreciation/amortization
- Deferred finance costs
- Organization and start-up costs
- Imputed interest on cash loans
- Accrued wages

Tax Basis Financial Statements

Differences Areas of difference between GAAP and Tax Basis:

- Tax does not allow for an accrual of expenses and requires use of the cash method, even for accrual method taxpayers.
- Tax allows for accruals but only when the expenses is paid within a certain period of time.
- Tax uses a different accounting method

Tax Basis Financial Statements

Tax does not allow for an accrual of expenses and requires use of the cash method, even for accrual method taxpayers.

- Allowance for doubtful accounts vs. direct write off
- Income received in advance
- Warranty liability
- Compensated absences
- Percentage of completion
- Loss accruals
- Impairment of loans
- Impairment of long-lived assets
- Accrued wages
- Revenue recognition
- Income taxes
- Inventory valuation

Tax Basis Financial Statements

Tax allows for accruals but only when the expenses is paid within a certain period of time.

- Accrued wages
- Employee benefits

Tax Basis Financial Statements

Tax uses a different accounting method

- Leases
- Interest capitalization
- Closely-held investments
- Investments in debt and equity securities
- Consolidation
- Discounts on debt
- Exchanges of nonmonetary assets and involuntary conversions
- Depreciation/amortization
- Deferred finance costs
- Organization and start-up costs
- Imputed interest on cash loans

Tax Basis Financial Statements

- **Comment:** Unmodified tax basis usually is a terrible method of accounting in reflecting financial condition and results of operations
- Statement should reflect the method **used** on the tax return
- **Include all elections** made on the return
- **Common departures**
  - **Consolidations** – Can only consolidate financial statements if returns are filed on a consolidated basis. Combining statements are OK.
  - **Depreciation** method changes
    - Asset lives
    - Bonus depreciation
    - Section 179 depreciation
  - **Adding receivables and payables**

Tax Basis Financial Statements

- Are **departures from tax basis** allowed?
  - Financial statements cannot be misleading
  - Some argue that tax basis are inherently misleading because they do not reflect important financial information.
  - The counter-argument is that if they are presented as information that was reported to the IRS then it is not misleading
  - Selecting some modifications without others can be considered to be arbitrary and biased.

GAAP Basis ←→ Tax Basis

GAAP Departures → ← Modifications to Tax

Kenn Heaslip Seminars, LLC

Tax Basis Financial Statements

- **Why tax basis?**
  - Entity must prepare a tax return, so no additional accounting is needed
  - Entity makes decisions based on tax motivations
  - Banks and creditors understand and accept this framework
- **Why not tax basis?**
  - It is a terrible method of accounting

Kenn Heaslip Seminars, LLC

Tax Basis Financial Statements

- **Balance Sheet**
  - Title is different
  - Classification is optional
- **Statement of Revenue and Expenses**
  - Title is different
  - Includes nontaxable revenue and nondeductible expenses
  - Three options
    1. Provide a subtotal for taxable income
    2. List nontaxable revenue and nondeductible expenses on a separate line item
    3. Disclose nontaxable revenue and nondeductible expenses

Kenn Heaslip Seminars, LLC

Tax Basis Financial Statements

Example 1: Option 1 - provide a subtotal for taxable income:

Taxable revenue	$ 500,000
Deductible expenses	350,000
Taxable income	150,000
Nondeductible expenses	10,000
Net income before taxes	**140,000**
Tax expense	42,000
Net income	$ 98,000

Kenn Heaslip Seminars, LLC

Tax Basis Financial Statements

Example 1: Option 2 - List nontaxable revenue and nondeductible expenses on a separate line item:

Taxable revenue	$ 500,000
Deductible expenses	350,000
Nondeductible expenses	10,000
Net income before taxes	**140,000**
Tax expense	42,000
Net income	$ 98,000

Tax Basis Financial Statements

Example 1: Option 3 - Disclose nontaxable revenue and nondeductible expenses:

Taxable revenue	$ 500,000
Expenses (Note X)	360,000
Net income before taxes	**140,000**
Tax expense	42,000
Net income	$ 98,000

Tax Basis Disclosures

Sample Disclosure (1 of 2):

NOTE 1: Summary of Significant Accounting Policies (In Part)

Basis of Accounting

The accompanying financial statements have been prepared on the accrual method of accounting used for federal income tax purposes. Consequently, as indicated below, certain revenues and expenses are recognized in the determination of income in different reporting periods than they would be if the financial statements were prepared in conformity with generally accepted accounting principles. Although income tax rules are used to determine the timing of the reporting of revenues and expenses, nontaxable revenues and nondeductible expenses are included in the determination of net income.

Kenn Heaslip Seminars, LLC

Tax Basis Disclosures

Sample Disclosure (2 of 2):

- *Section 179 election* – *The Company has elected to deduct as an expense certain capital assets acquired during the year. If the accompanying financial statements were prepared in conformity with generally accepted accounting principles, these assets would have been capitalized and depreciated over their estimated useful lives.*
- *Inventories* – *The Company includes certain overhead expenses that are capitalized in accordance with Section 263A of the Internal Revenue Code but which would not be capitalized under generally accepted accounting principles.*
- *ASC 810: Consolidation* – *ASC 810 requires that a primary beneficiary of a variable interest entity consolidate the variable interest entity into the primary beneficiary's financial statements. The Company is the primary beneficiary of a number of variable interest entities as defined in ASC 810, but in accordance with tax law the Company has not elected to consolidate these entities into the Company's consolidated financial statements.*

Kenn Heaslip Seminars, LLC

Cash Basis Financial Statements

- **Definition:**
  A basis of accounting that the entity uses to record cash receipts and disbursements and **modifications** of the cash basis having substantial support (for example, recording depreciation of fixed assets)
- Pure cash basis financial statements are rare.
- **Modifications**,
  - Have a **GAAP equivalent**
  - Are **not illogical**
- In addition, cash basis statements
  - Cannot be misleading
  - Should be evaluated against GAAP
  - Should not be disguised GAAP with departure statements

Cash Basis Financial Statements

- Common **GAAP equivalents** adopted
  - Capitalizing fixed assets and depreciation
  - Recording receivables and payables
  - Recording inventory
  - Accruing expenses and prepayments
  - Recording debt
  - Recording payroll tax expenses
  - Recording pensions
  - Accounting for investments

GAAP Basis ⟷ Cash Basis

GAAP Departures → ← Cash modifications

Cash Basis Financial Statements

- Use of tax cash method is NOT a cash basis financial statement, it is a tax basis financial statement
- Industries that use cash basis
  - Professional service companies
  - Rental businesses
  - Businesses with limited or no inventory
- Characteristics of a cash basis business
  - Most purchase and sale transactions are in cash
  - Not manufacturing or businesses requiring complex accounting
  - Simple presentation of cash transactions

Kenn Heaslip Seminars, LLC

Cash Basis Disclosures

Sample Disclosure:

NOTE 1: Summary of Significant Accounting Policies (In Part)

Basis of Accounting

The accompanying financial statements have been prepared on the cash basis of accounting, modified to record assets or liabilities with respect to cash transactions and events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. The modifications result in the recording of investments, inventories, capital assets, and related short-term and long-term obligations on the statement of financial position. This basis of accounting represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). This basis of accounting differs from U.S. GAAP primarily because certain revenue and related assets (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) have been recognized when received rather than when earned and certain expenses and related liabilities (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued liabilities and expenses) have been recognized when paid rather than when the obligations were incurred.

Kenn Heaslip Seminars, LLC

Contractual Basis Financial Statements

- Based on the **needs of the user**
  - Needs are stated by the user, usually in writing
  - Usually consists of departures from GAAP or specified presentation.
- Cannot be based on desire of management or the CPA
- Cannot be misleading
- Must restrict use to user who set the framework

Contractual Basis Financial Statements

Case Study 1:

- A contractor has a subcontractor who is determined to be a variable interest entity under ASC Topic 810.
- The contractor is unable to obtain financial information from the subcontractor.
- In addition, the contractor has some derivative investments and does not have the technical expertise to use fair value accounting
- The contractor speaks with the bonding company who says "don't include the subcontractor information. If you put it in, we will have to take it out because we are bonding you, not him." They also say it's OK to use cost basis instead of fair value accounting.
- What do you suggest?

Contractual Basis Financial Statements

Case Study 1 Discussion:

- There are several options
  - Prepare statements electing out of VIE under ASU 2018-17
  - Elect out of consolidation and hire an outside consultant to calculate the fair value and prepare disclosures of derivatives.
  - Prepare statements electing out of VIE under ASU 2018-17 and implement a GAAP departure on the derivatives.
  - Use contractual basis financial statements.

Contractual Basis Disclosures

Sample Disclosure:

NOTE 1: Summary of Significant Accounting Policies (In Part)

Basis of Accounting

The accompanying financial statements have been prepared on a contractual basis of accounting required by ABC Bank. The Bank requires that operating leases not be capitalized and be recorded as an annual lease expense using a straight-line method. They also require that deferred taxes not be recognized. Generally Accepted Accounting Principles require a lease liability to be recorded at the present value of lease payments, the right of use of the lease be recorded as an asset, and deferred taxes be computed based on the temporary differences between the financial statement income and the taxable income. Consequently, lease liabilities, right of use assets and deferred taxes are not recorded on the balance sheet. In addition, deferred taxes are not recorded on the balance sheet or income statement.

Regulatory Basis Financial Statements

- Used when a regulatory agency requires a specific set of financial statements using unique methodology and presentation
- GAAP covers the use of several regulatory frameworks so use of those frameworks will be considered to be GAAP bases of accounting
- **Common uses**
  - Insurance industry
  - Banking industry
  - HUD reporting
  - Liquidation Basis
  - Statutory Basis
- Reports can be
  - Restricted or
  - Unrestricted

Regulatory Basis Financial Statements

- **Unrestricted reports – General use**
  - Used by parties other than those within the entity and the regulatory agency or
  - When the financial statements together with the report are distributed by the entity to parties other than the regulatory agencies to whose jurisdiction the entity is subject, either voluntarily or upon specific request
- **Restricted reports**
  - Financial statement are suitable for only for a limited number of users who can be presumed to have an adequate understanding of the SPF
- **Disclosures**
  - Description of the framework
  - How the framework differs from GAAP - by definition, the framework will be different
  - The entity that dictates the framework to be used

FRF for SMEs Financial Reporting

- Framework adopted by the AICPA in 2013
- Self contained
  - Guidance
  - Disclosure requirements
- Not yet commonly used
- Features
  - Simpler than GAAP
  - Maintains the integrity of accrual accounting
  - Better than tax basis reporting
- **Can be considered to be accounting as is learned in a first-year financial accounting class with optional use of many of the complexities in Intermediate and Advanced accounting**

FRF for SMEs Financial Reporting

Topics detailed in the framework (1 of 3):

1. Financial Statement Concepts
2. General Principles of Financial Statement Presentation and Accounting Policies
3. Transition
4. Statement of Financial Position
5. Current Assets and Current Liabilities
6. Special Accounting Considerations for Certain Financial Assets and Liabilities
7. Statement of Operations
8. Statement of Cash Flows
9. Accounting Changes, Changes in Accounting Estimates, and Correction of Errors
10. Risks and Uncertainties

FRF for SMEs Financial Reporting

Topics detailed in the framework (2 of 3):

11. Equity, Debt, and Other Investments
12. Inventories
13. Intangible Assets
14. Property, Plant, and Equipment
15. Disposal of Long-Lived Assets and Discontinued Operations
16. Commitments
17. Contingencies
18. Equity
19. Revenue
20. Retirement and Other Postemployment Benefits

Kenn Heaslip Seminars, LLC

FRF for SMEs Financial Reporting

Topics detailed in the framework (3 of 3):

21. Income Taxes
22. Subsidiaries
23. Consolidated Financial Statements and Noncontrolling Interests
24. Interests in Joint Ventures
25. Leases
26. Related Party Transactions
27. Subsequent Events
28. Business Combinations
29. New Basis (Push-Down) Accounting
30. Nonmonetary Transactions
31. Foreign Currency Transactions

Kenn Heaslip Seminars, LLC

CPEA Guidance

- The AICPA Center for Plain English Accounting issued a report on January 20, 2021, *Navigating Disclosure Requirements for OCBOA Financial Statements*
- Included in the report:
  - Audit Guidance
  - AICPA Practice Aid
  - Navigating the Disclosures
  - Risks and Uncertainties
  - Requirements for SPFs
  - Subsequent Events
  - Related Party Transactions

CPEA Guidance

- Audit Guidance
  - AU-C 800 provides authoritative guidance related to OCBOA financial statements.
  - AU-C 800.18 requires that, when OCBOA financial statements include items that are the same as or similar to those in financial statements prepared under U.S. GAAP, the auditor should evaluate whether the OCBOA financial statements include informative disclosures similar to those required by U.S. GAAP.
  - AU-C 800.A25 indicates that achieving fair presentation includes providing all informative disclosures appropriate for the applicable financial reporting framework, including matters that affect the use, understanding, and interpretation of the financial statements
  - AU-C 800.A27 indicates that OCBOA financial statements may substitute qualitative information for the quantitative information that U.S. GAAP requires or, alternatively, provide information that communicates the substance of those requirements.

CPEA Guidance

- **Disclosures**
  - **Summary of Significant Accounting Policies** are:
    - Basis of Accounting
    - Primary Differences between the Basis Used and U.S. GAAP
  - **Other Disclosures** (GAAP)
    - Risks and uncertainties
    - Going concern considerations
    - Subsequent events
    - Related-party transactions
    - Commitments and contingencies
    - Impairment of assets
    - Uncertainty in tax positions
    - Arrangements with variable interest entities

Kenn Heaslip Seminars, LLC

CPEA Guidance

- **Conclusion**
  - One of the common misconceptions related to special purpose frameworks is that there is a substantial reduction in disclosure requirements compared with U.S. GAAP.
  - While there are some disclosures that are not required, other disclosures, as discussed above, are required in addition to those required to communicate the same information as U.S. GAAP disclosures.
  - As such, any reduction in disclosure requirements when preparing special purpose framework financial statements may not be as substantive as initially expected.

Kenn Heaslip Seminars, LLC

CHAPTER 3

SSARS Overview

SSARS Overview

- **SSARS 21** issued clarified standards
  - Sections recast with a prefix of AR-C
  - Added preparation engagements
- Prior to SSARS 21, a CPA was required to issue a compilation report whenever (SSARS 8)
  - He/she was engaged to compile financial statements or
  - He/she prepared and presented a financial statement known to be used by a third party.
- Prior standards were considered to be submission based
- New standards are engagement based
- The engagement is based on the engagement letter
- Engagement letters are now required for all SSARS engagements – must be signed by the client

Identifying the Applicable Standards

	SSARS			Audit	Statements on Standards for Attestation Engagements				
Provide Assurance on:	SSARS Preparation	SSARS Compilation	SSARS Review	Audit	Attestation Review	Assertion Based Examination	Direct Examination	Agreed Upon Procedures	Other Attestation
Historical Financial Information	AR-C 70	AR-C 80	AR-C 90	AU-C 100-999					
Prospective Financial Information	AR-C 70	AR-C 80	AR-C 90			AT-C 305	AT-C 305	AT-C 305	
Pro Forma Financial Statements	AR-C 70	AR-C 120			AT-C 310	AT-C 310	AT-C 310		
Non-Financial Information								AT-C 215	
Comfort Letters								AT-C 215	
Compliance						AT-C 315	AT-C 315	AT-C 315	
Controls at a Service Organization									AT-C 320
Management Discussion and Analysis									AT 395

Kenn Heaslip Seminars, LLC

AR-C Section 60

- Section 60 applies to all SSARS engagements
- Much of the section repeats the requirements of the AICPA Statements on Quality Control
- Components of AR-C Section 60
  - Financial statements
  - Ethical requirements
  - Professional judgement
  - Conduct on the engagement
  - Engagement quality control
  - Acceptance and continuance of clients

Kenn Heaslip Seminars, LLC

Financial Statements

- **Financial statements must**
  - Use an established **framework**
    - General purpose (GAAP) or
    - Special purpose (SPF)
  - Be a **fair presentation** based on the framework
  - Include **adequate disclosure** or a disclaimer of disclosures
- Financial statements are the **representation of management**
  - Exercise judgement
- Accountants are engaged to
  - Prepare,
  - Compile, or
  - Review financial statements

Kenn Heaslip Seminars, LLC

Ethical Requirements

- CPAs must comply with all AICPA standards including
  - SSARS
  - The Code of Professional Conduct
  - Quality Control Standards
- Elements of the Code of Professional Conduct
  - Responsibilities
  - Public Interest
  - Integrity and Objectivity
  - Independence (when required)
  - Due Care

Kenn Heaslip Seminars, LLC

Professional Judgement

- Elements of professional judgement
  - Training, knowledge, and experience
  - Competence
    - Knowledge from prior engagements
    - Understanding of the client, its environment, industry, accounting systems, and the financial reporting framework
  - Includes judgement by client's management as well as the CPA
- Judgement must be documented

Conduct of the Engagement

- Conduct must be in accordance with SSARS
- Comply with proper standard sections
- Requirements
  - **Unconditional** – The use of "must" or "is required" indicate an unconditional requirement
  - **Presumptively Mandatory** – The use of "should" require the CPA to comply if circumstances apply
  - **Presumptive** – The use of "should consider" means the action is not required

Engagement Level Quality Control

- Work must comply with professional standards
- Engagement must comply with the firm's quality control policies and procedures
- Reports, when required, must be appropriately worded and presented
- Engagement teams must be able to raise concerns without fear of reprisals

Engagement Level Quality Control

- The firm's quality control system should ensure
  - Competence of the engagement team
    - Recruitment
    - Formal training
  - Independence (if required)
  - Maintenance of client relationships
    - Acceptance
    - Continuance
  - Conform to regulatory and legal requirements

Engagement Level Quality Control

- Engagement partner responsibilities
  - If partner becomes aware of any concerns, or if information is later called to his/her attention, the partner should communicate the concern promptly to the firm
  - Must comply with relevant ethical standards and be alert to noncompliance by members of the engagement team
  - Must monitor the process to provide reasonable assurance that the control system is
    - Relevant,
    - Adequate, and
    - Effective

Acceptance and Continuance of Client Relationships and Engagements

- To accept an engagement, CPA should:
  - Determine that ethical requirements and professional competence will be satisfied
  - Determine the financial statement framework is
    - Acceptable
    - Meets the needs of the users
    - Confirms with legal and regulatory requirements
  - Make sure management understands its responsibilities

Acceptance and Continuance of Client Relationships and Engagements

- Ultimately, the partner must determine
  - The integrity of the client's owners, management and those charged with governance:
    - Interview the client
    - Review previous financial statements
    - Gain a preliminary understanding of the accounting system, including accounting personnel
    - Understand the use and intended users of the financial statements
  - The competence of the engagement team along with the time budget and firm resources available
  - Whether the firm can meet all the requirements
  - Any issues or findings have been identified and communicated

Kenn Heaslip Seminars, LLC

Acceptance and Continuance of Client Relationships and Engagements

- The CPA should not accept the client if
  - There is reason to believe ethical requirements cannot be satisfied
  - Information needed to complete the engagement will likely not be available or be unreliable
  - There is reason to doubt the integrity of management that will impact the engagement

Kenn Heaslip Seminars, LLC

Agreement of Management

- Engagement letter should include
  - Management responsibilities
    - Objective of the engagement
    - Responsibilities of management
      - Selection of the financial reporting framework
      - Design, implementation and maintenance of internal control
      - Provide CPA with all relevant information
  - CPA responsibilities
  - Limitations of engagement
  - Identification of financial reporting framework
- Engagement letter should be signed by
    - The CPA or the CPA firm
    - Management or those charged with governance

Kenn Heaslip Seminars, LLC

Agreement of Management

- Other engagement letter suggestions
  - Use a new letter each year
  - Include both services being and not being performing
  - Indicate fee structure
  - Work stoppage and completion of engagement
  - Responsibilities of fraud detection
  - Privity information – indicate users
  - The engagement may be subject to peer review
  - Outsourcing disclosure
  - The client has selected the level of service

Kenn Heaslip Seminars, LLC

Selected Engagement Letter Paragraphs

Work stoppage and completion of engagement

Fees are due and payable in accordance with firm policy (state policy). If fees are not paid as agreed, we reserve the right to discontinue work. We also reserve the right to discontinue our services and not issue a report if the engagement cannot be completed in accordance with professional standards.

Selected Engagement Letter Paragraphs

Outsourcing (AICPA recommended language):

The firm may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information, and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, the firm will remain responsible for the work provided by any such third party service providers.

Selected Engagement Letter Paragraphs

Selection of services:

Our firm performs many services including audit, review, compilation, and preparation services. You have determined that a preparation service most appropriately meets your needs.

Other Engagement Concerns

- In addition to the above, the CPA should also address the following:
  - Engagement terms
  - Knowledge and understanding of the financial reporting framework
  - Preparation of the financial statements
  - Independence

AICPA Aides

- Standards
- Preparation, Compilation, and Review Engagement Guide
- ARSC engagement alerts
- Informational videos
- Center for Plain English Accounting (CPEA) newsletters and publications

Quality Control Standards

- **Statements on Quality Control Standards** (SQCSs) are issued by the Auditing Standards Board (ASB)
- SQCS No. 8
  - Supersedes all previously issued standards
  - Was effective January 1, 2012
- While these standards were issued by the ASB, the principles and concepts are repeated and incorporated in other standards issued by the AICPA. For example,
  - Audit
  - SSARS
  - Code of Professional Conduct
  - Statements on Standards for Tax Services (SSTS)
  - Statements on Standards for Consulting Services (SSCS)
- Much of the peer review process is evaluating a firm's use of these standards in all engagements

Quality Management Standards

- In June 2022, the AICPA issued the following four standards:
  - Statement on Quality Management Standards:
    - **SQMS 1,** *A Firm's System of Quality Management*
    - **SQMS 2,** *Engagement Quality Reviews*
  - **SAS 146,** *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
  - **SSARS 26**, *Quality Management for an Engagement Conducted in Accordance with Statements on Standards for Accounting and Review Services*
- **SQMS will replace the SQCSs previously discussed in 2025**

Kenn Heaslip Seminars, LLC

Quality Management Standards

- **SQMS 1 & 2:**
  - Supersedes SQCS No. 8, *A Firm's System of Quality Control*
  - Supersedes SAS 122, Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (AU-C 220)
- **Objectives of the standards (1 of 2):**
  - Increase firm leadership responsibilities and accountability, and improve firm governance
  - Introduce a risk-based approach focused on achieving quality objectives
  - Address technology, networks and the use of external service providers
  - Enhance the engagement partner's (EP's) responsibility for audit engagement leadership and audit quality

Kenn Heaslip Seminars, LLC

Quality Management Standards

- **Objectives of the standards (2 of 2):**
  - Increase focus on the continual flow of information and appropriate communication, internally and externally
  - Promote proactive monitoring of quality management systems and timely and effective remediation of deficiencies
  - Clarify and strengthen requirements for a more robust engagement quality review (EQR)
  - Enhance the engagement partner's (EP's) responsibility for audit engagement leadership and audit quality

Kenn Heaslip Seminars, LLC

Quality Management Standards

- **The Standards address the following:**
  - The firm's risk assessment process (new)
  - Governance and leadership (adapted from the leadership] responsibilities for quality within the firm component in QC section 10)
  - Relevant ethical requirements (same name as component in QC section 10)
  - Acceptance and continuance of client relationships and specific engagements (same name as component in QC section 10)
  - Engagement performance (same name as component in QC section 10)
  - Resources (adapted from the human resources component in QC section 10)
  - Information and communication (new)
  - The monitoring and remediation process (adapted from the monitoring component in QC section 10)

Kenn Heaslip Seminars, LLC

Quality Management Standards

- **Objectives of SQMS 1:**
  - The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements.
  - Engagement reports issued by the firm are appropriate in the circumstances.

Quality Management Standards

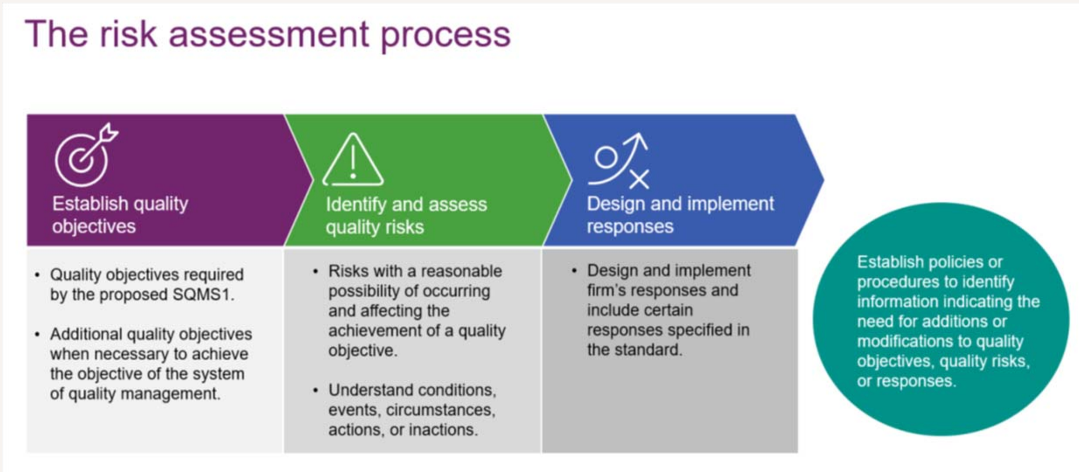
- **Components of SQMS 1:**
  - Risk assessment process
  - Governance and leadership
  - Resources
    - Technological
    - Intellectual
    - Human resources
  - Information and communication
  - Monitoring and remediation
  - Networks
  - Scalability

Quality Management Standards

- **Components of SQMS 2:**
  - Appointment and eligibility of reviewers
  - Performance and documentation of the EQR
    - Significant judgments and significant matters
    - Timing of the review
    - Documentation

Quality Management Standards

Quality Management Standards



Quality Management Standards

- **The engagement partner's overall responsibility:**
  - Sufficient and appropriate involvement throughout the engagement
    - Leadership – Responsible for achieving quality at the engagement level
    - Stand Back – Should be satisfied that involvement has been sufficient and appropriate to provide basis for taking overall responsibility
    - Direction, supervision and review – Responsible for nature, timing, and extent, in view of engagement circumstances

Quality Control Peer Review Trouble Spots

Peer review report engagements with year-ends between 1/1/19 and 4/01/20:

- Leadership responsibilities for quality within the firm. **Failure to:**
  - Update the quality control document regarding EQCR and monitoring
  - Devote sufficient resources for the support of its quality control policies and procedures
  - Ensure that the firm personnel complete the appropriate amount of CPW in areas of practice and in accordance with the requirements of professional standards
- Engagement performance. **Failure to:**
  - Properly complete or utilize purchased practice aids to assist in performing and documenting engagements
  - Perform EQCR on engagements that meet the firm's criteria

CHAPTER 4

Preparation Engagements

Case Study #2

Facts:

- Client is engaged to prepare a tax return for XYZ Partnership
- CPA is provided with coded check stubs and bank statements, summarizes the transactions, performs bank reconciliations, and prepares an adjusted trial balance.
- Based on work performed, the tax return is prepared with copies of the balance sheet, income statement and trial balance retained in the file.
- Client signs IRS Form 8879 and return is efiled before March 15.
- On August 15th the client calls CPA and says they are getting an equipment lease and needs a copy of a financial statement for the leasing company and asks "Do you have one?

How do you answer?

Answer provided later

Kenn Heaslip Seminars, LLC

Case Study #3

Facts:

- The firm is engaged to perform advisory services which includes
  - Paying bills,
  - Recording transactions in QuickBooks,
  - Reconciling bank accounts,
  - Adjusting the trial balance, and
  - Providing them with a copy of monthly financial statements.

What type of engagement is this?

Answer provided later

Kenn Heaslip Seminars, LLC

Preparation Engagement Objective

The objective of the CPA is to prepare financial statements pursuant to a specified financial reporting framework

Preparation Engagements Overview

- Newest SSARS Service
- Engagement driven – terms are governed by the engagement letter
- Is a nonattest service
- No report need be issued
- Replaces management-use-only compilations
- If a CPA only has preparation engagements and does not issue compilation or review reports, the firm will be exempt from most states' peer review programs
- **In effect, allows accountant to do anything a person in the client's internal accounting or finance department can do**

Preparation Engagements Overview

- **Preparation engagements can be preparation of**;
  - Financial statements
  - Elements (line items) of financial statements
  - Supplementary information
  - Proforma financial information
  - Prospective financial information
  - Management use financial statements
- **Independence need not be considered**

Preparation Engagements Overview

- The following are **not** preparation engagements
  - Bookkeeping
  - Preparation of journal entries
- **Legends** – Financials statements should either
  - Include a legend such as
    - No assurance is provided on these financial statements
    - These financial statements have not been subjected to an audit or review or compilation engagement, and no assurance is provided on them
  - Or a disclaimer

Preparation Engagements Disclaimer

Sample Disclaimer:

The accompanying financial statements of XYZ Company as of and for the year ended December 31, 20XX, were not subjected to an audit, review, or compilation engagement by us and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

Preparation Engagement Letters

Includes (blue items are in AR-C Section 60 requirements)

- Objective of the engagement
- Responsibilities of management
- **Agreement of management that each page of the financial statements will include a statement indicating that no assurance is provided on the financial statements**
- Responsibilities of the CPA
- Limitations of the engagement
- Identification of the applicable financial reporting framework
- **Whether the financial statement are to contain a known departure from the framework**

No, or Limited Disclosure Statements

- Management should inform readers if they elect to omit substantially all disclosures. This fact should be he following may be made on the face of the financial statements
- If there are limited disclosures, they may be labeled "Selected Information – Substantially All Disclosures Required by [applicable framework] Are Not Included."

Preparation Engagements - Documentation

- Documentation in a preparation engagement should include
  - The engagement letter or other suitable form of written documentation with management.
  - A copy of the financial statements that the accountant prepared
- If the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the CPA must document the justifications for the departure and how alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.
- Documentation of significant consultations or significant professional judgements made
- Documentation required in AR-C Section 60

Preparation Engagements FAQs

Center for Plain English Accounting 7/15/15
Question 2:

If financial statements are prepared by the accountant as a by-product of another engagement (for example, an engagement to prepare a tax return), is the accountant required to follow section 70 of SSARS No. 21 and include any special disclaimer or "no assurance" statement on those financial statements?

Preparation Engagements FAQs

Center for Plain English Accounting 7/15/15
Question 2 Answer:

No. The accountant is only required to perform the preparation engagement in accordance with section 70 of SSARS No. 21 when engaged (hired) to prepare financial statements. Therefore, because the accountant was not engaged to prepare the financial statements there is no requirement to include a statement on each page of the financial statements indicating that no assurance is provided on the financial statements.

Preparation Engagements FAQs

Center for Plain English Accounting 10/27/15
Question 2:

A client engages the accountant to perform monthly services that include posting transactions and journal entries to their general ledger system, paying vendor invoices, coordinating payroll services, reconciling accounts, and "cleaning up" the data and general ledger in the accounting software. In addition, the client requests that the accountant email the client monthly financial statements. The financial statements are generated by the accounting software. Would this type of engagement be considered preparation of financial statements under section 70 of SSARS No. 21?

Kenn Heaslip Seminars, LLC

Preparation Engagements FAQs

Center for Plain English Accounting 10/27/15
Question 2 Answer (1 of 2):

Section 70 of SSARS No. 21 does not apply unless the accountant is engaged (hired) to prepare financial statements. Creating a well-defined agreement prior to the start of the engagement with the client as to what the accountant is engaged to perform is essential. The accountant's understanding as to what the client expects will determine whether section 70 applies.

Kenn Heaslip Seminars, LLC

Preparation Engagements FAQs

Center for Plain English Accounting 10/27/15

Question 2 Answer (2 of 2):

If the client is hiring the accountant to perform the services indicated in the question and understands the accounting software (and not the accountant) is preparing the financial statements, then the accountant has not been engaged to prepare financial statements and section 70 of SSARS No. 21 does not apply. Substantial "clean-up" of the data and general ledger in the accounting software by the accountant, involving numerous adjusting entries, does not constitute preparation of financial statements. Again, making certain that the client understands what service the accountant is providing is essential.

Preparation Engagements FAQs

Center for Plain English Accounting 10/27/15

Question 6:

The accountant utilizes accounting software developed and maintained by his or her accounting firm to input the client's financial data. The accountant then utilizes the functionality of the software to prepare the financial statements. Does section 70 of SSARS No. 21 apply?

Preparation Engagements FAQs

Center for Plain English Accounting 10/27/15

Question 6 Answer:

It depends on what the client engages the accountant to do. If the client engaged the accountant to prepare financial statements, then, section 70 of SSARS No. 21 applies. If the accountant was merely engaged to perform some bookkeeping functions and the client understands that the accountant did not prepare the financial statements, then, section 70 would not apply. A clear understanding between the accountant and the client as to what the engagement entails would make clear whether the SSARSs applies.

Kenn Heaslip Seminars, LLC

Case Study #2 (Repeated)

Facts:

- Client is engaged to prepare a tax return for XYZ Partnership
- CPA is provided with coded check stubs and bank statements, summarizes the transactions, performs bank reconciliations, and prepares an adjusted trial balance.
- Based on work performed, the tax return is prepared with copies of the balance sheet, income statement and trial balance retained in the file.
- Client signs IRS Form 8879 and return is efiled before March 15.
- On August 15th the client calls CPA and says they are getting an equipment lease and needs a copy of a financial statement for the leasing company and asks "Do you have one?

 How do you answer?

Kenn Heaslip Seminars, LLC

Case Study #2 Answer

Answer:

- Do you have the financial statements?
  - Yes. Record request rule of the AICPA Code of Professional Conduct and state statute and regulations apply.
- What was the CPA engaged to do?
  - The work performed was tax related and subject to the tax engagement letter
  - The trial balance, balance sheet, and income statements are supporting documents (by-product) of the tax return.
- Best Practices: Consider,
  - Shred documents and do not include in the workpapers
  - Marking each page with a with a watermark “Statement used only to support tax return information”
  - Anticipate this request in the engagement letter and set the terms in advance

Case Study #3 (Repeated)

Facts:

- The firm is engaged to perform advisory services which includes
  - Paying bills,
  - Recording transactions in QuickBooks,
  - Reconciling bank accounts,
  - Adjusting the trial balance, and
  - Providing them with a copy of monthly financial statements.

What type of engagement is this?

Answer: What does the engagement letter say?

CHAPTER 5

Compilation Engagements

Compilation Engagement Objective

The objective of a compilation is to assist management in the presentation of financial statements and report in accordance with AR-C 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

Compilation Engagements - Overview

- Engagement letter driven
  - Only applicable when the CPA is engaged to perform a compilation
  - Engagement letter defines the nature of the engagement
- No assurance is given
- Independence must be evaluated
- A compilation report will be issued
  - Standard report is one paragraph
  - Report is modified for certain circumstances
- **Only requirement is that the CPA read the financial statements and see if they are free of obvious material misstatements**

Compilation Procedures

- The CPA should **read** the financial statements and consider whether such statements appear to be appropriate in form and **free of obvious material misstatements**
- The CPA should propose appropriate revisions to management when:
  - The financial statements do not adequately refer to or describe the applicable financial reporting framework
  - Revisions to the financial statements are required of them to be in accordance with the applicable framework
  - The financial statements are misleading

Compilation Procedures

- The CPA should withdraw from the engagement when:
  - The CPA is unable to complete the engagement because management has failed to provide records, documents, explanations, or other information, including significant judgments as requested or
  - Management does not make appropriate revisions that are proposed by the accountant or does not disclose such departures in financial statement, and the accountant determines to not disclose such departures in the compilation report

Compilation Procedures

- Notes on obvious material misstatements
  - Includes information the CPA obtained from other nonattest engagements
  - Ironically, the more the client relies on the CPA for nonattest services (indicating a small unsophisticated client), the greater the burden is for the CPA.

Compilations – Obvious Misstatements

- Elements of the financial statements that do not conform to the special purpose framework,
- Titles that are inappropriate for the basis of accounting used.
- Mathematical mistakes
- Misclassification of current assets or current
- Not disclosing interest rates, terms, maturities, and the five-year principal payments on loans
- Not disclosing significant concentration of credit risk
- Not properly classifying transactions as financing and operating in the statement of cash flows
- Undisclosed deficiencies or departures from the financial reporting framework
- Omission of any required disclosures for the specified reporting framework

AR-C Section 120 - Pro Forma Financial Statements

When an accountant is associated with a pro forma financial statement the financial statement presentation must:

- Be labeled as pro forma
- Describe the assumed or proposed transaction
- Include the source of the historical information
- Include significant assumptions
- Indicate that the information should be read with historical information
- Include a caveat that pro forma is not indicative of actual results

Compilation Engagement Letters

- Includes (red items are in addition to AR-C Section 60 requirements)
  - Objective of the engagement
  - Management responsibilities
  - CPA responsibilities
  - Limitations of engagement
  - Identification of financial reporting framework
  - The form and content of the compilation report and a statement that there may be circumstances in which the report may differ from its expected form and content

Compilation Reports

- Include a statement that **management (owners) is responsible** for the financial statements
- Identify the financial statements that have been **compiled**
- Identify the **entity** whose financial statements have been compiled
- Specify the **date or period(s) covered** by the financial statements
- Include a statement that the accountant performed the compilation engagement in accordance with **SSARS issued by ARSC**
- Include a statement that the **accountant did not audit or review** the financial statements nor was the accountant required to perform any procedures to verify the accuracy or completeness of the information provided by management and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on the financial statements
- Include the **signature of the accountant** or the accountant's firm
- Include the **city or state** where the accountant practices
- Include the **date of the report**, which should be the date that the accountant has completed the procedures required by AR-C Section 80.

Compilation Reports – Additional Paragraphs

- Use of SPFs
- Accountant is not independent
- Financial statements that omit substantially all the disclosures required by the applicable framework
- Emphasis of matter
  - Going Concern
  - Special Purpose Framework
  - Inconsistency
- Known departures from the applicable framework
- Supplementary information that accompanies financial statements

Kenn Heaslip Seminars, LLC

Compilations – Additional Considerations

- Step down in service from audit or review
- Communications between predecessor and successor accountants

Kenn Heaslip Seminars, LLC

Compilations – Required Documentation

- Engagement letter
- Copy of the financial statements
- Copy of the accountant's report

Kenn Heaslip Seminars, LLC

Compilations – Additional Documentation

- Information required by
  - Quality control standards
    - Checklist, if required by the firm
    - Program, if required by the firm
  - AR-C 60 documentation
- Documentation that the financial statements have been read
- Findings and how they were resolved
- Any consultations with outside parties
- Communications with management
- Reason for a step down in service
- Communication with predecessor accountant

Kenn Heaslip Seminars, LLC

Compilation Report

Standard Report:

Management is responsible for the accompanying financial statements of Heaslip Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion or a conclusion nor provide any form of assurance on these financial statements.

Signature, address, and date

Compilation Report – Not Independent

Option 1 (preferred):

We are not independent with respect to Heaslip Company

Sample of Option 2 (not recommended)

We are not independent with respect to Heaslip Company as of and for the year ended December 31, 20X1, because John Smith was responsible for maintenance of Heaslip Company's system of internal control

Compilation Report – No Disclosures

No Disclosure Paragraph:

Management has elected to omit substantially all of the disclosures [and the statement of cash flows] ordinarily included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. If the omitted disclosures 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. ***Accordingly, the financial statements are not designed for those who are not informed about such matters.***

Compilation Report - SPFs

Compilation with Disclosure:

As discussed in Note 1 of the financial statements, the financial statements are prepared in accordance with the tax basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Compilations with No Disclosure:

The financial statements are prepared in accordance with the tax basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Compilation Reports - Departures

Departure from Framework:

[As discussed in note X,] The tax returns were prepared using full (bonus) depreciation of assets acquired during the year. Management has informed us that Heaslip Company has depreciated its property, plant, and equipment using a straight-line depreciation method with different useful lives than MACRS or the Asset Depreciation Range (ADR) lives. Management has not determined the effects of this difference.

Compilation Reports – Going Concern

- There is no requirement that a compilation report be modified with a going concern paragraph
- If the financial statements contain a required going concern disclosure, the CPA should consider adding an emphasis of the matter paragraph similar to the review paragraph.
- There is guidance regarding special purpose frameworks that do not require going concern disclosures.
- In cases where there is a no disclosure financial statement, a CPA should carefully evaluate if inclusion of an emphasis of the matter paragraph would elevate the engagement to a review.

Compilation Reports – Restricted Use

Restricted Use:

This report is intended solely for the information and use of TD Bank NA and is not intended to be and should not be used by anyone other than these specified parties.

Compilation Report – Supplementary Information

Supplementary Information Compiled:

The supplementary information contained in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. ***The supplementary information was subject to our compilation engagement.*** *We have not audited or reviewed the supplementary information and do not express an opinion, conclusion, or provide an assurance on such information.*

Compilation Report – Supplementary Information

Supplementary Information Not Compiled:

The supplementary information contained in Schedules X and XX is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. ***The supplementary information was not subject to my (our) compilation engagement.*** *I (We) do not express an opinion, conclusion, nor provide any assurance on such information.*

Compilation Report – Supplementary Information

Supplementary Information Not Compiled Separate Report:

Our report on our compilation of the basic financial statements of Heaslip Company for December 31, 20X1, appears on page 2. We have not audited or reviewed the financial statements and do not express an opinion or provide any assurance about whether the financial statements are in accordance with the tax basis of accounting. The supplementary information included in the accompanying Schedules 1 and 2 is presented only for supplementary analysis purposes. Such supplementary information is the responsibility of management, and we do not express an opinion or a conclusion nor provide any assurance on such supplementary information.

Compilation Peer Review Trouble Spots

Peer review - report engagements with year-ends between 1/1/19 and 4/1/20 (1 of 2):

Failure to prepare reports in accordance with Professional standards

- Not updated for recent SSARS
- No heading on the report
- Inappropriate titles or lack of a title
- No explanation of the degree of responsibility the accountant is taking with respect to supplementary information
- Failure to mention that substantially all disclosures are omitted
- Failure to report on all periods presented in the financial statements
- Failure to include a separate paragraph indicating that the financial statements were prepared in accordance with a SPF

Compilation Peer Review Trouble Spots

Peer review - report engagements with year-ends between 1/1/19 and 4/1/20 (2 of 2):

- Failure to obtain an engagement letter or failure to contain all elements required by SSARS
  - Failure to not the lack of independence or the letter refer to GAAP on an engagement performed in accordance with a SPF
  - Failure to identify nonattest services provided
  - Failure to obtain required signatures
- Failure to appropriately label select disclosures as "Selected Information – Substantially All Disclosures Required by [Applicable Reporting Framework] Are Not Included"

CHAPTER 6

Review Engagements

Review Reports – Overview

- Limited assurance
- Independence is required
- Must be full disclosure financial statements
- Additional procedures
  - Inquiry
  - Analytical procedures
  - Management representation letter
- Cannot review pro forma statements
- Interim reports can't be reviewed if the CPA
  - Audited the previous year's financial statements and is expected to audit the current year statements
  - Is engaged to perform a year end audit
- Review is an attest engagement

Review Engagements

Limited Assurance:

A level of assurance that is less than the reasonable assurance obtained in an audit engagement but is at an acceptable level as the basis for the conclusion expressed in the accountant's review report.

Review Evidence

- The nature, timing, extent, and results of the work performed such as inquiry, analytical, or other procedures
- The review evidence obtained
- The source of the review evidence
- Conclusions reached, including any indications that the financial statements required material modifications and how they were resolved
- Significant findings or issues arising during the review
- Review Evidence is primarily
  - Inquiry
  - Analytical procedures
  - Management representation letter

SSARS 25: AR-C 90 Review Engagements

- Consistent with the increased emphasis on materiality, the accountant, when designing and performing analytical procedures and inquiries, should address
  - All material items in the financial statements, including disclosures, and
  - Areas in the financial statements where the accountant believes there are increased risks of material misstatement
- Additional review guidance is included in SSARS 25 in the areas of related parties, fraud and non-compliance with laws and regulations, and going concern
- Examples of transactions, events, or matters the accountant should inquire about are included in SSARS 25

SSARS 25: AR-C 90 Review Engagements

- In a review of financial statements, the accountant expresses a conclusion regarding the reporting entity's financial statements in accordance with an applicable financial reporting framework
- The accountant's conclusion is based on the accountant obtaining limited assurance
- The accountant's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion
- The accountant performs primarily inquiries and analytical procedures to obtain sufficient appropriate review evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of AR-C Section 90
  - Revises suggested inquiries
  - Revises examples of significant, unusual, or complex transactions
- The accountant obtains a management representation letter.

Inquiry

- Inquiry should be
  - **Predetermined** – developed at the beginning of the engagement
  - **Probative** – Open ended questions and not just yes and no
  - **Tailored** for the engagement – based on the client, risk, previous experience, industry and other factors

Inquiry – Sample Questions

- Are the financial statements in conformity with the applicable financial reporting framework?
- What are the accounting principles used and the company's procedures for recording and disclosing transactions?
- Are there any unusual or complex transactions that might require special accounting?
- Are there any significant transactions at year-end that could indicate a cutoff problem?
- Were entries proposed by the accountant in the past properly recorded?
- Did any unusual questions or issues arise in the course of applying the review procedures?
- Are there any events subsequent to the financial statement date that must be recorded or disclosed?

Inquiry – Sample Questions

- Is the client aware of any actual or suspected fraud or illegal acts?
- Were there any significant adjustments made by the client?
- Were there any notices received from taxing or other regulatory authorities? In addition, the accountant should make an inquiry relating to any questions that come up while performing review procedures
- Were there events subsequent to the date of the financial statements that could have a material effect on the fair presentation of such financial statements?
- Were there any related party transactions, or significant new related party activities?
- Was there any litigation, claims, and assessments that existed at the date of the balance sheet being reported on and during the period from the balance sheet date to the date of management's response to the accountant's inquiry?
- Has management evaluated going concern?

Analytical Procedures

- **Analytical procedures include**
  - **Comparing the financial statements with comparable information** for the prior period, giving consideration to knowledge about changes int eh entity's business and specific transactions
  - Considering **plausible relationships** among both financial and, when relevant, nonfinancial information
  - Comparing recorded amounts or **ratios** developed from recorded amounts to **expectations** developed by the accountant through identifying and using relationships that are reasonable expected to exist, based n the accountant's understanding of the entity and the industry in which the entity operates

Analytical Procedures

- Designing and performing analytical procedure should consider
  - Suitability of particular analytical procedures
  - Reliability of data considering source, comparability, and nature of information
  - Expectations of recorded amounts or ratios
- Use nonfinancial data
- **Expectations approach** – three steps
  - Develop an expectation and materiality levels
  - Compare expectations to actual
  - Explain material differences
- **Differences** between analytical procedures in audits and reviews
  - In an audit, material difference must be audited
  - In a review, a client explanation of the difference is enough

Management Representations (1 of 2)

- Management has fulfilled its responsibility for the preparation and fair presentation of the financial statements
- Management acknowledges its responsibility for designing, implementing, and maintaining internal control including its responsibility to prevent and detect fraud
- Management has provided the accountant with all relevant information and access
- Management has responded fully and truthfully to all inquiries
- All transactions have ben recorded
- Management has disclosed to the accountant its knowledge of fraud or suspected fraud
- Management has disclosed its knowledge of any allegations of fraud or suspected fraud
- Management has disclosed all known instances of noncompliance or suspected noncompliance with laws and regulations
- Whether management believes that the effects of uncorrected misstatements are immaterial

Management Representations (2 of 2)

- Management has disclosed all known actual or possible litigation and claims
- Whether management believes that significant assumptions used are reasonable
- Management has disclosed all related party relationships and transactions of which it is aware.
- All events occurring subsequent to the date of financial statements requiring adjustment or disclosure have been adjusted or disclosed
- Management has evaluated going concern

Kenn Heaslip Seminars, LLC

SSARS 25: AR-C 90 Review Engagements

- Related to expressing a conclusion, the accountant may reach a "modified conclusion" which is a qualified conclusion or an adverse conclusion
  - A qualified conclusion is reached when the accountant concludes that the effects of the matter or matters, giving rise to this modification, are material but not pervasive to the financial statements
  - An adverse conclusion is reached when the effects of the matter or matters, giving rise to this modification, are both material and pervasive to the financial statements
- As a result of "expressing a conclusion," the review report language changes to reflect the conclusion reached

Kenn Heaslip Seminars, LLC

Review Documentation

Required Review Documentation (1 of 2):

- An engagement letter
- A copy of the review report issued and the financial statements
- Analytical procedures performed
- Any additional review procedures performed in response to significant unexpected differences and the results of these procedures
- The results of significant inquiries

Review Documentation

Required Review Documentation (2 of 2):

- Any significant findings or issues
- Significant unusual matters
- Any verbal or written communication of fraud or illegal acts
- Communications with management regarding the accountant's expectation to include emphasis-of-matter or other-matter paragraph(s) in the accountant's review report
- Communications with other accountants that have audited or reviewed the financial statements of significant components
- A signed representation letter

Additional Review Documentation

Suggested Additional Review Documentation:

- That the accountant has knowledge of the client's business and industry
- A trial balance that bridges the general ledger to the financial statements
- Indication that there are no material modifications required to the financial statements
- A work program, if required by firm policy
- A disclosure checklist, if required by firm policy
- Any consultation performed

Standard Review Report (1 of 4)

Independent Accountant's Review Report

I (We) have reviewed the accompanying financial statements of XYZ Partnership, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's (partners') financial data and making inquiries of partnership management (partners). 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. Accordingly, I (we) do not express such an opinion.

Standard Review Report (2 of 4)

Management's Responsibility for the Financial Statements

Management (Partners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Standard Review Report (3 of 4)

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with the basis of accounting the partnership uses for income tax purposes. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

I am (We are) required to be independent of XYZ Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Standard Review Report (4 of 4)

Accountant's Conclusion

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the partnership uses for income tax purposes.

Kenn Heaslip Seminars, LLC

Review Report Modifications

- The following **additional paragraphs** are the same as compilation:
  - **Emphasis-of-matter** and other-matter
    - Special Purpose Frameworks
  - **Restricted use**
  - **Supplementary information**
  - Reference the work of **other accountants**
- Review reports are not modified for
  - Independence impairments
  - Substantially all disclosures omitted

Kenn Heaslip Seminars, LLC

Review Report – Special Purpose Frameworks

Following the conclusion paragraph:

Basis of Accounting

I (We) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the partnership uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Review Reports - Departures

Preceding the qualified conclusion paragraph:

Basis for Qualified Conclusion

As disclosed in Note 9 to the financial statements, accounting principles generally accepted in the United States of America require that certain investments be carries at fair value. Management has informed us that the company has not adjusted the investments for fair value, if accounting principles generally accepted in the United States of America had been followed, the investments would be presented at a different value and other comprehensive income would be recorded on the balance sheet. The effects of this departure from accounting principles generally accepted in the United States of America on financial position, results of operations, and cash flows have not been determined.

Review Reports – Supplementary Information

Following the Accountants' Conclusion:

Supplementary Information

The [supplementary information included] is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures we applied in our review of the basic financial statements, and we are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information, and we do not express an opinion on such information.

Kenn Heaslip Seminars, LLC

Review Reports – Supplementary Information Not Reviewed

Following the Accountant's Conclusion:

Supplementary Information

The supplementary information in schedules 1 and 2 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management. We have not audited or reviewed the supplementary information, and accordingly, we do not express an opinion or a conclusion nor provide any assurance on such information.

Kenn Heaslip Seminars, LLC

Review Reports – Separate Report on Supplementary Information

Our report on my review of the basic financial statements of Heaslip Company for the year ended December 31, 20X1 appears on page 2. The object of of that review was to perform procedures to obtain limited assurance as a basis for reporting whether we were aware of any material modification that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and related directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

Review Reports – Going Concern

Following the Conclusion Paragraph:

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note X, the Company has suffered recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note X. The accompanying financial statements do not include any adjustments to the financial statements that might result from this uncertainty. Our conclusion is not modified with respect to this matter.

Kenn Heaslip Seminars, LLC

Review Reports – Going Concern Uncertainty Alleviated by Management's Plans

Following the Conclusion Paragraph:

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

As discussed in Note X, the Company has suffered recurring losses from operations, has a net capital deficiency. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note X. Our conclusion is not modified with respect to this matter.

Review Report - Pervasive Departures

Pre SSARS 25:

Because the significance and pervasiveness of the matters previously discussed makes it difficult to assess their impact on the financial statements as a whole, users of these financial statements should recognize that they might reach different conclusions about the company's financial position, results of operations, and cash flows if they had access to revised financial statements prepared in accordance with accounting principles generally accepted in the United States of America.

Review Report – Adverse Conclusion

Adverse Conclusion:

Based on my (our) review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements are not in accordance with the applicable financial reporting framework

Kenn Heaslip Seminars, LLC

SSARS 25 Illustrated Review Report

Qualified Conclusion:

Based on my (our) review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, I am (we are) not aware of any material modification that should be made to the accompanying financial statements in order for them to be in accordance with the applicable financial reporting framework

Kenn Heaslip Seminars, LLC

Review Peer Review Trouble Spots

Peer review report - engagements with year-ends between 1/1/19 and 4/1/20 (1 of 2):

- Failure to obtain appropriate management representation letters Matters included failure to:
  - Include all representations required by the applicable professional standards
  - Date the letter appropriately
  - Include appropriate financial statement periods
- Failure to update reports in conformity with the applicable professional standards including:
  - Inappropriate titles or lack of a title
  - No headings on the report
  - Failure to include an explanation of the degree of responsibility being taken with respect to supplementary information in a separate paragraph

Review Peer Review Trouble Spots

Peer review report - engagements with year-ends between 1/1/19 and 4/1/20 (2 of 2):

- Failure to obtain an engagement letter or failure to have all required elements within the engagement letter
- Failure to document expectations or the comparison of expectations to recorded amounts for analytical procedures
- Failure to cover all of the periods or the correct periods presented in the financial statements in accountant's report

CHAPTER 7

Other Practice Issues

Other Information

- Subsequent discovery of facts
- Reference to the work of other accountants
- Financial statements prepared in accordance with a prescribed form
- Change in level of service
- Compilations of specified element of a financial statement (not illustrated)
- Materiality

Subsequently Discovery of Facts

- If the CPA becomes aware of a misstatement after the report is issued:
  - Determine whether the information is reliable
  - Determine whether the facts existed at the date of the accountant's previous reported
  - Discuss the events with the appropriate client personnel
  - Determine whether the financial statements, disclosures, or report would be affected
  - Determine whether users are likely to be relying on the financial statements
  - Advise the client to make the appropriate disclosure to those likely to be using the financial statements.
- If the client refuses to make the necessary disclosure, the CPA should notify the client, any regulatory agencies, and/or the user that the CPA knows may be relying on the financial statements. This should be done with legal counsel
- This is especially troublesome for compilations since there the likelihood of subsequently discovered facts is greater when the CPA does not perform analytical procedures or audits

Predecessor CPA

- When the previous year has been compiled or reviewed by a predecessor CPA, there are several options
  - Report on noncomparative financial statements for a single year only
  - Report on comparative financial statements and reference the predecessor CPA's report
  - Report on comparative financial statements and take responsibility for both years
- For compilations, It is much easier to take responsibility on the prior year's statements
- For reviews, it is not as easy since the CPA must
  - Perform Inquiries and analytical procedures and
  - Obtain a management representation letter

Predecessor CPA

- It is especially complicated when the prior year numbers are revised and updated
  - Can issue a single year financial statement with a prior period adjustment
  - Can issue comparative statements with revised numbers and
    - Prior CPA will issue a new report or
    - Current CPA will perform the compilation or review for the prior year as well as the current year

Kenn Heaslip Seminars, LLC

Referencing Predecessor CPA – Prior CPA's Report Not Presented

Following the Accountants' Conclusion:

Report on December 31, 20X1 Financial Statements

The financial statements of XYZ Company as of December 31, 20X1, were subjected to a review engagement by other accountants whose report dated February 1, 2002, stated that they are not aware of any material modifications that should be made ot the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Kenn Heaslip Seminars, LLC

Compilation Reports on Prescribed Forms

Sample Report (1 of 2)

Management is responsible for the TD Bank Statement of Net Worth as of December 31, 20X1 of Heaslip Corporation which comprise the balance sheet as of December 31, 2022 and the related statements of income and retained earnings and cash flows for the year then ended, including the accompanying prescribed form in accordance with accounting principles generally accepted in the United /States of America. 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. We did not audit or review the financial statements included in the prescribed form nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion or a conclusion nor provide any form of assurance on these financial statements.

(continued)

Compilation Reports on Prescribed Forms

Sample Report (2 of 2)

The financial statements included in the accompanying prescribed form are presented in accordance with the requirements of TD Bank NA which do not require capitalization of overhead in inventory and are not intended to be a complete presentation of Heaslip Corporation's assets and liabilities. Management has not determined the effect of this departure on the financial statements

This report is intended solely for the information and use of TD Bank NA and is not intended to be and should not be used by anyone other than these specified parties.

Changes in Level of Service

- Year 1 Compiled, Year 2 Reviewed
  - Standard review report for the recent year
  - Additional paragraph for the prior year

Changes in Level of Service

Following the Accountants' Conclusion

Management is responsible for the accompanying financial statements of Heaslip Corporation which comprise the balance sheet as of December 31, 20X1, the related statements of income and retained earnings and the statement of cash flows for the year then ended, and the related notes to the financial statements in accordance with generally accepted accounting principles generally accepted in the United States of America 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. We did not audit or review the financial statements and we were not required to preform procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, or provide any assurance on the 20X1 financial statements.

Materiality

- The accountant is required to determine materiality for the financial statements as a whole and apply materiality in designing the procedures and evaluating the results obtained from these procedures
- Further, the accountant should revise materiality for the financial statements as a whole if the accountant becomes aware of information during the review that would have caused the accountant to have determined a different materiality amount initially

Materiality

Materiality:

SSARS No. 25 did not provide a specific definition of materiality

The definition of materiality found in SAS No. 138 is as follows:

> *"Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements*

Appendix

Selected Ethics Rulings Affecting SSARS Engagements

Ethics – Topics Covered

- Independence
- Management Responsibilities
- Nonattest Services
- Tax Services
- Hosting
- Information Systems
- Client Records Requests
- Staff Augmentation
- Peer Review Trouble Spots

AICPA Code of Professional Conduct

- **Independence is required** when
  - Audit
  - Review
  - Attestation engagements under the SSAEs
  - Compilation that does not disclose lack of independence

Independence

- **Independence of mind** – the state of mind that permits a member to perform an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism
- **Independence in appearance** – the avoidance of circumstances that would cause a reasonable and informed third party, who has knowledge of all relevant information, including the safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or a member of the review engagement team is compromised.

Independence

Steps in Evaluating Independence:

- Identify any threat
- Is there a safeguard which eliminates or mitigates the threat?
- Is the safeguard adequate?

Kenn Heaslip Seminars, LLC

Independence

Conceptual Framework:

- Threats that could impair independence include:
  1. Adverse Interest
  2. Advocacy
  3. Familiarity
  4. Management Participation
  5. Self-Interest
  6. Self-Review
  7. Undue Influence
- Independence is evaluated using an engagement team approach

Kenn Heaslip Seminars, LLC

Management Responsibilities

Overriding principle for nonattest services:

If a member were to assume a management responsibility for an attest client, the management participation threat would be so significant that no safeguards could reduce the threat to an acceptable level and independence would be impaired. (ET 1.295.030.01)

Management Responsibilities

- Setting policies or strategic direction for the client
- Directing or accepting responsibility for client employees except when permitted
- Authorize, approve, execute or consummate a transaction or exercise authority on behalf of a client
- Preparing source documents
- Having custody of client assets
- Deciding recommendations to be implemented or prioritized

Management Responsibilities

- Reporting to those in charge of governance on behalf of management
- Serving as the client transfer agent
- Accepting responsibility for the management of a client's project
- Accepting responsibility for the preparation and fair presentation of the client's financial statements
- Accepting responsibility for designing, implementing, or maintaining internal controls
- Performing ongoing evaluations of internal control

Management Responsibilities

- Before performing nonattest services, the client and its management must agree to:
  - Assume all management responsibilities
  - Oversee the service
  - Evaluate the adequacy of the service performed
  - Accept responsibility for the service performed
- The above must be documented in writing

Management Responsibilities

- **The CPA can**
  - Recommend
  - Suggest
  - Propose
  - Present
- **The CPA cannot**
  - Execute
  - Decide
  - Implement
  - Direct
  - Authorize
  - Approve

Subtopic 1.295 Nonattest Services

Advisory services
Appraisal, valuation, and actuarial services
Benefit plan administration
Bookkeeping, payroll, and other disbursements
Business risk consulting
Corporate finance consulting
Executive or employee recruiting

- Forensic accounting
- Hosting
- Information systems design, installation, or integration
- Internal audit
- Investment advisory or management
- Tax services

Tax Services

- Includes:
  - Preparation of tax returns
  - Transmittal of related tax payments
  - Signing and filing a tax return
  - Having power of attorney
  - Authorized representation

Tax Services

- Independence would be impaired if you sign and file a return without:
  - Taxing authority has prescribed procedures, or
  - Client **signed statement** which represents individual:
    - Is authorized to sign,
    - Has **reviewed** the return, and
    - **Authorizes** the member to sign and file the return on client's behalf

Hosting Services

- Involves the member accepting responsibility for:
  - Acting as host of financial or non-financial information
  - Taking custody of or storing data
  - Providing electronic security or back up
- Underlying premise:
  - It is management's responsibility to keep the company's records
  - If management is relying on a CPA to keep records, the CPA is performing a management responsibility that will impair independence.

Kenn Heaslip Seminars, LLC

Hosting Services

- **Records can be:**
  - Tax returns and financial statements
  - Contracts
  - Regulatory filings
  - Corporate book
  - Accounting books and records
- **Primary areas of concern**
  - Location of QuickBooks file
  - Client retention of tax records

Kenn Heaslip Seminars, LLC

Hosting Services

Will not impair independence (1 of 2):

- Retaining a copy of client's data or records that support a service the member provided
- Retaining a copy of work product
- Using general ledger software if:
  - The member and client keep separate instances of the software
  - The client enters into an agreement with a third party to maintain its software in a cloud-based solution and grants the member access
- Retaining data collected related to a work product

Kenn Heaslip Seminars, LLC

Hosting Services

Will not impair independence (2 of 2):

- Electronically exchanging data, records, or work product with a nonattest client or on behalf of a client
- Licensing software that the client uses to input its data and receive output that the client is responsible for maintaining
- Having possession of a depreciation schedule, provided that the schedule and calculations are given to the client so their books and records are complete
- Retaining client's original data or records to facilitate nonattest services provided that the records are returned to the client at the end of the engagement, at least annually

Kenn Heaslip Seminars, LLC

Information Systems, Design, Implementation or Integration

- Commercial off-the-shelf (COTS) software
- Design, development, or implementation services not related to FIS
- Design or development of an FIS
- Implementation, installation, configuration, and customization of COTS
- Services that interface a COTS FIS software
- Data translation services related to COTS FIS software
- System and network maintenance, support, and monitoring

Client Records Requests

- Relates to the requirement that CPAs honor request from current or former clients for records that are in the CPAs possession.
- Most common ethics violation among CPAs
- Rules were recently clarified but this does not result in a change of practice
- States generally have more restrictive rules than the AICPA. Differences usually involve:
  - Most states require that a clients request for records be honored even If the fee is not paid.
  - Rules vary by state regarding second or repeated requests for the same information

Client Records Requests

Four Types of Records:

When a current or former client asks for records that are in the possession of the accountant, the member should determine the type of record being requested:

- Client provided records
- Member prepared records
- Member's work products
- Member's working papers

Client Records Requests

Client provided records (1 of 2):

- Defined as accounting or other records including hardcopy and electronic reproductions of such records, belonging to the client that was provided to the member by, or on behalf of, the client.
- Examples: Original or copies of bank statements
- Provided to client not later than 45 days after request

Client Records Requests

Client provided records (2 of 2):

- Members must make available upon request any client provided documents
- Make records available is defined as “provide the records in any format that is usable and accessible, whether electronic or otherwise, regardless of the format in which they were received.” (ET 1.400.200.01(g))
  - This implies that a copy of the original documents is acceptable
  - Be careful in doing this because the original document is property of the client and there may be a legal requirement to return the original.

Client Records Requests

Member prepared records:

- Defined as accounting or other records that the member was not specifically engaged to prepare and that are not in the client’s books and records or are otherwise not available to the client, which renders the client’s financial records incomplete.
- Examples: adjusting, closing, combining, or consolidating journal entries and supporting schedules and documents that the member proposed or prepared as part of the engagement
- Provided to client upon request not later than 45 days after request

Note: 1.400.200.07 related to returning member prepared records and work product states “A member should make available member-prepared records relating to a completed and issued work product”

Client Records Requests

Member's work products:

- Defined as deliverable set forth in the terms of the engagement
- Example: tax returns
- Provided to the client upon request

Client Records Requests

Member's working papers:

- Defined as all other items prepared solely for purposes of the engagement and include items prepared by the member or client at the request of the member reflecting testing or other work done by the member.
- Items prepared solely for purposes of the engagement
- Examples: Audit programs, analytical review schedules, sampling results and analysis
- Need not be provided to the client

Client Records Requests

Other rules related to record requests:

- Must be provided in any usable format
- There is no obligation to convert the records into electronic format
- The member must provide records in the format requested if they are available in that format
- There is no requirement to provide formulas unless:
  - The formulas support the client's underlying accounting or other records
  - The member was engaged to provide such formulas
- May charge the client a reasonable fee
- Should provide the records in a format usable by client
- May make and retain copies
- Should comply as soon as practicable but no later than 45 days
- Comply with state statutes

Client Records Requests

QuickBooks files:

A frequent request of a prior accountant is to provide a copy of the QuickBooks file

- It constitutes the client's records that otherwise are not available to the client, which renders the client's financial records incomplete.
- The records are requested in that format.
- There is no need to convert the records into a different format.
- It is a usable format.

Since the file is a member prepared record, the file should be provided to the client or former client upon request under the rules above.

Note: In 2021, PEEC issued non-authoritative guidance that seems to conclude QuickBooks files are not accounting records and they are a workpaper. This seems to be a narrow ruling based on uncommon facts and circumstances.

Staff Augmentation

Defined:

Lending firm personnel to an attest client whereby the attest client is responsible for the direction and supervision of the activities performed by the augmented staff. Under such arrangements, the firm bills the attest client for the activities performed by the augmented staff but does not direct or supervise the actual performance of the activities.

Staff Augmentation

- **Interpretation allows augmentation when:**
  - The services are due to an unexpected situation that would create a significant hardship for the attest client to make other arrangements;
  - The arrangement is not expected to reoccur;
  - The services are performed for a time not to exceed 30 days;
  - the augmented staff does not participate in an attest engagement and will not be in a position to influence the engagement;
  - services are not prohibited by the nonattest services interpretations; and
  - the augmented staff is overseen by someone at the client who possesses suitable skills, knowledge, and experience.

Ethics Peer Review Trouble Spots

Peer review report - engagements with year-ends between 1/1/19 and 4/01/20:

- Failure to establish and document in writing the understanding with the client with regard to nonattest services provided
- Failure to address management's responsibilities to oversee and evaluate the results of the services performed.

Kenn Heaslip Seminars, LLC

Questions...?

Contact Information:
kheaslip@comcast.net
www.kheaslip.com