

PREPARATION & COMPILATION STEP BY STEP



33RD NCPACA CONVENTION
HOUSTON, TEXAS
JULY 5, 2019

PRESENTED BY:



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Founder/CEO

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RE-WRITING AND IMPLEMENTATION

- **Supersedes all existing SSARS except AR Section 120, *Compilation of Pro Forma Financial Information***
- **Effective on financial statements for periods ending on or after December 15, 2015**
 - **Early implementation is permitted**



SSARS 21

The Effective

for fiscal years ending on or after December 15, 2015

PURPOSE

- Standards for preparation and compilation engagements of financial statements
- Easier to read
- Easier to understand
- Easier to apply



FOUR SECTIONS – QUICK PEAK

- **Section 60**, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*
- **Section 70**, *Preparation of Financial Statements*
- **Section 80**, *Compilation Engagements*
- **Section 90**, *Review of Financial Statements*

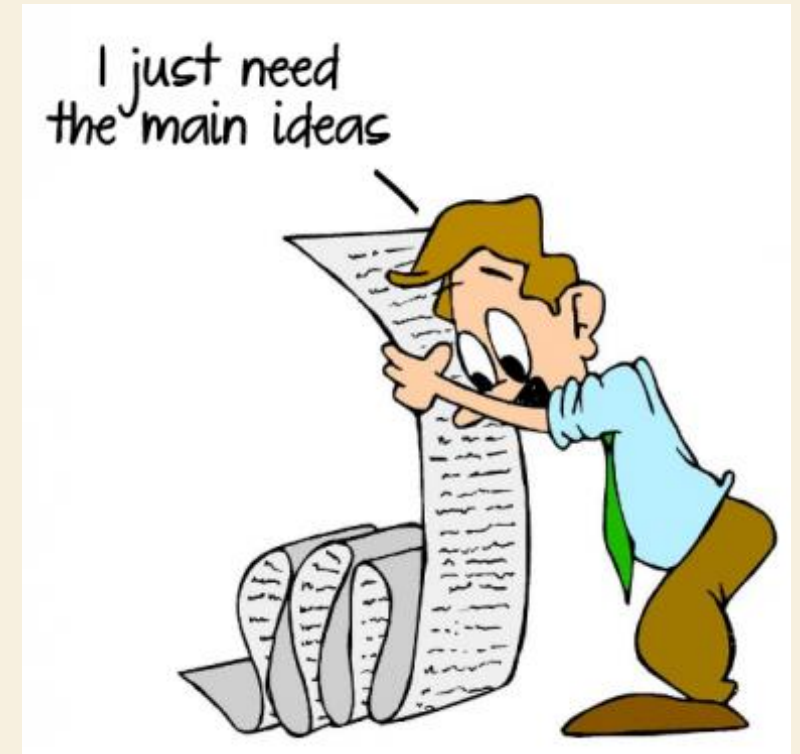


Illustration 1—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial statements, including related notes, subject to the compilation engagement.
- The financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America and will include all related notes required by accounting principles generally accepted in the United States of America
- The accountant expects that his or her independence will not be impaired

To the appropriate representative of management of ABC Company:¹

You² have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related

statements of income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements and perform a compilation engagement with respect to those financial statements. We are pleased to confirm our acceptance of our understanding of this engagement by means of this letter.

Our Responsibilities

The objective of our engagement is to

- a. prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided to you and
- b. apply accounting and financial reporting expertise to assist you in the presentation of financial statements without undertaking to obtain or provide assurance that there are no other misstatements that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our compilation engagement in accordance with Statements on Standards for Accounting and Review Services (SSARS) promulgated by the Accounting and Review Services Committee of the AICPA, and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America and assist you in the presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARS:

- a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements
- b. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America and the inclusion of all informative disclosures that are appropriate for accounting principles generally accepted in the United States of America
- c. The design, implementation, and maintenance of internal control systems relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error
- d. The prevention and detection of fraud
- e. To ensure that the entity complies with the laws and regulations applicable to its activities
- f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement
- g. To provide us with
 - i. access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters
 - ii. additional information that we may request from you for the purposes of the compilation engagement
 - iii. unrestricted access to persons within the entity of whom we determine it is necessary to make inquiries

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

You agree to include our accountant's compilation report in any document containing financial statements that indicates that we have performed a compilation engagement on such financial statements and, prior to inclusion of the report, to ask our permission to do so.

Other Relevant Information

Our fees for these services. . . .

[The accountant may include language, such as the following, regarding limitation of or other arrangements regarding the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by

third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a compilation engagement with respect to those same financial statements, and our respective responsibilities.

Signature of accountant or accountant firm: _____
I have read and agree to the terms of this engagement letter for ABC Company by: _____

[Signed]

[Name and Title]

[Date]

[Revised, February 2015, to include additional required engagement letter elements]

Sample Compilation Engagement Letter

To the appropriate representative of ABC Company:¹

You² have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended and the related notes to the financial statements.^{3 4} We are pleased to confirm our acceptance and our understanding of this engagement to prepare the financial statements of ABC Company by means of this letter.

Our Responsibilities

The objective of our engagement is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you. We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion on the financial statements. According to the SSARs, we will not express an opinion or conclusion or provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Management Responsibilities

The engagement to be performed is conducted on the basis that management acknowledges and understands that our role is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America. Management has the following overall responsibilities that are fundamental to our undertaking the engagement to prepare your financial statements in accordance with SSARs:

- a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements
- b. 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
- c. The prevention and detection of fraud
- d. To ensure that the entity complies with the laws and regulations applicable to its activities
- e. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to the firm for the engagement to prepare financial statements
- f. To provide us with:
 - i. Documentation and other related information that is relevant to the preparation and presentation of the financial statements,
 - ii. Additional information that may be requested for the purpose of the preparation of the financial statements, and
 - iii. Unrestricted access to persons within ABC Company of whom we determine necessary to communicate.

The financial statements will not be accompanied by a report. However, you agree that the financial statements will clearly indicate that no assurance is provided on them.

If the accountant issues a disclaimer as a result of the engagement, the accountant will state that the financial statements were not subjected to an audit, review, or compilation engagement by the accountant and accordingly, the accountant does not provide any assurance on them.

Other Relevant Information

Our fees for these services . . .

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein, and our respective responsibilities.

Sincerely yours,

[Signature of accountant or accountant's firm]
Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and Title]

[Date]

[Revised, February 2015 to include additional required engagement letter elements. Paragraphs in red in the original SSARS No. 23, October 2016.]

Sample Preparation Engagement Letter

SECTION 60 – FOR ALL ENGAGEMENTS

Accountant's Responsibilities:

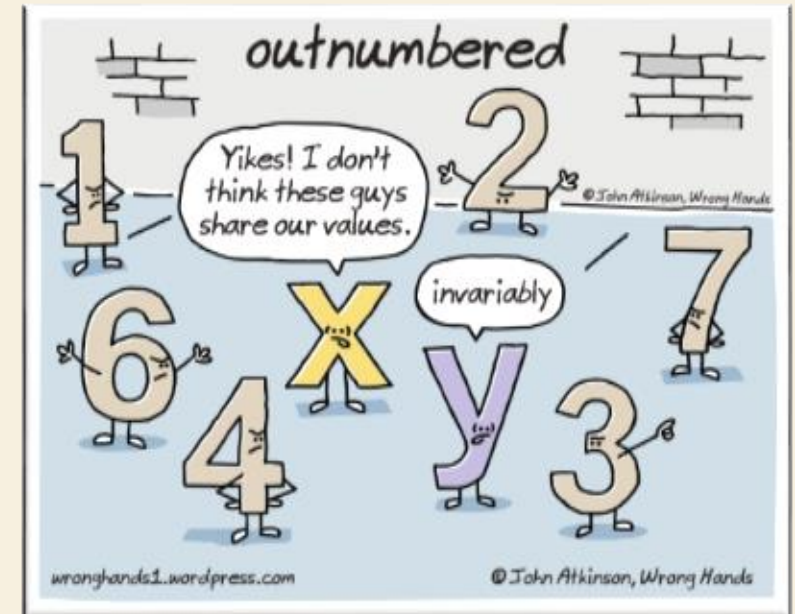
Conduct of the engagement in accordance with SSARS

- Ethical requirements
- Engagement-level quality control
- Acceptance and continuance of client relationships and engagements
- Professional Judgment
- Signed engagement letter with agreed-upon terms



SECTION 60 – ETHICAL REQUIREMENTS

- Responsibilities
- Public Interest
- Integrity
- Objectivity and Independence
- Due care
- Scope and nature of services



SECTION 60 – ENGAGEMENT LEVEL QUALITY CONTROL

- Engagement partner possess appropriate competencies and capabilities to perform the engagement
- Engagement partner takes responsibility for overall quality, direction, supervision and performance of the engagement
 - Independence where applicable
 - Appropriateness of documentation



SECTION 60 - ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND ENGAGEMENTS

- Determine if engagement team will have the knowledge to ensure professional competence
- Applicable financial reporting framework
- Ensure that the firm can comply with ethical requirements
- Consider integrity with principal owners and those charged with governance
- Management's Responsibilities



SECTION 70 – PREPARATION ENGAGEMENTS

- Sec. 70 is applicable for:
 - Preparation engagements by accountants in public practice
 - Supplementary information
 - Pro forma financial statements
 - Prospective financial information
 - Personal financial statements



SECTION 70 – PREPARATION ENGAGEMENTS (CONT.)

Section 70 is NOT applicable for financial statements that are:

- **Exclusively for submission to taxing authorities**
- **For inclusion in written personal financial plan**
- **Used in litigation support services**
- **Used for business valuation services**



SECTION 70 - REQUIREMENTS



Performing engagements to prepare financial statements



Acceptance and continuance of client relationships and engagements



Agreement on engagement terms



Knowledge and understanding of financial reporting framework



Documentation in a preparation engagement



Disclaimer must be placed to establish that there is no assurance provided in the financial statements

SECTION 70 – ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS & ACCOUNTANT’S KNOWLEDGE AND UNDERSTANDING



Discuss with management or governance any issues raised



Client inability to make appropriate changes in a timely manner will preclude acceptance



Understand significant accounting policies



Entity’s financial reporting framework may be obtained after acceptance

SECTION 70 – PREPARING THE ENGAGEMENT LETTER



Nonattest service



Required to disclose omissions in the financial statements



Not required to:

- Determine independence
- Verify accuracy or completeness of information
- To gather evidence
- To express opinion

Exhibit 1 Heading Sample

Financial statements prepared in accordance with the tax basis of accounting that omit substantially all disclosures may include a heading such as the following:

Donnelly & Oates Limited Liability Partnership
Statement of Assets, Liabilities and Partners' Capital
Tax Basis

Substantially All Disclosures Required by the Tax Basis of Accounting Omitted
December 31, 20X2.

Source: Michael P. Glynn, CPA, CGMA.

Exhibit 2 Examples of Statements by Preparers

Examples of a statement that would be placed on each page of the financial statements that the accountant prepared include the following:

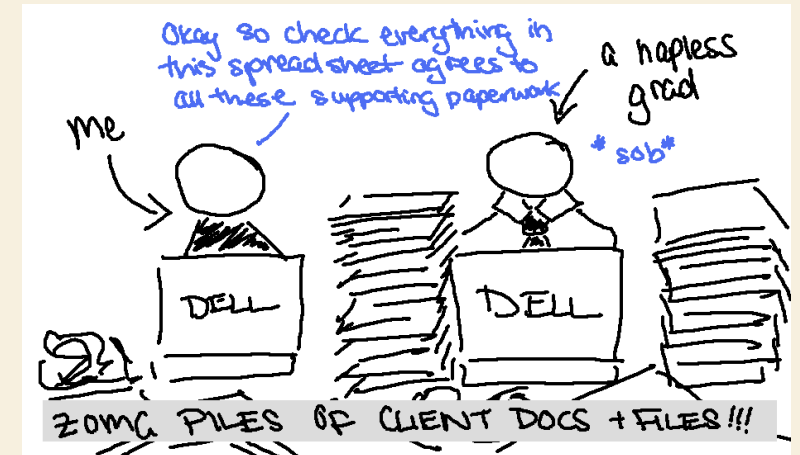
- No assurance is provided on these financial statements.
- These financial statements have not been subjected to an audit, review, or compilation engagement, and no assurance is provided on them.

Other statements that convey that no assurance is provided on the financial statements would also be acceptable.

Source: Michael P. Glynn, CPA, CGMA.

SECTION 70 – PREPARING THE FINANCIAL STATEMENTS

- Each page must state that “***no assurance is provided***”
- If records, documents, and other information is incomplete or inaccurate, accountant should request more or accurate information
- Any use of a special framework must be disclosed
- Departures from framework



SECTION 70 – DOCUMENTATION IN A PREPARATION ENGAGEMENT

- Copy of financial statements
- Executed engagement letter
- Memos or documentation on significant issues and conclusions or departure from presumptively mandatory requirements



SECTION 80 – COMPILATION ENGAGEMENTS

Applies when engaged to perform a compilation

No assurance provided

Not required to:

- Determine independence
- Verify accuracy or completeness of information
- To gather evidence
- To express opinion

SECTION 80 – REQUIREMENTS



Performing and reporting compilation engagements

Independence

- Can be found in the AICPA Code of Professional Conduct under **Sec. 1.200.001**
- Make certain that threats to independence are reduced (**Sec. 1.210.010**)

SECTION 80 – REQUIREMENTS CONT.



Acceptance and continuance of client relationships and engagements



Knowledge and understanding of financial reporting framework



Reporting when accountant is not independent



Reporting any omissions or departures from financial reporting framework and financial statements



Supplementary information

SECTION 80 – REQUIREMENTS (CONT.)

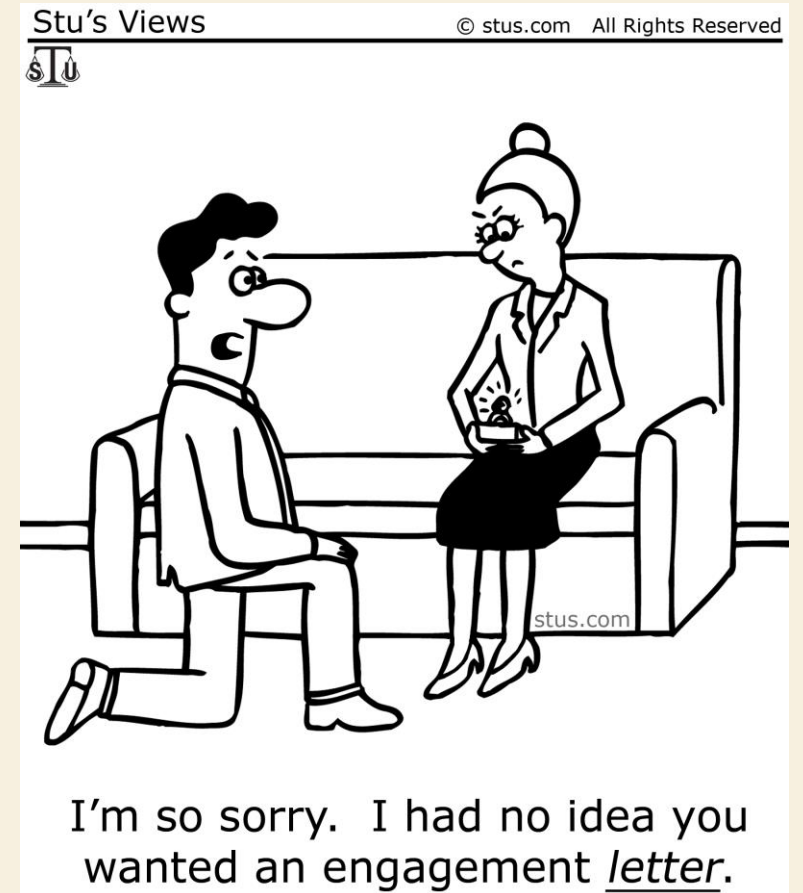
Compilation Procedures

- Read financial statements with knowledge of financial reporting framework and accounting policies
- Consider if financial statements are appropriate and free of material misstatements
- Withdrawal from engagement

Documentation in a compilation engagement

SECTION 80 – DOCUMENTATION IN A COMPILATION ENGAGEMENT

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



SECTION 80 – COMPILATION REPORT

- Statement that management is responsible for financial statements
- Identify the entity and period statements compiled
- State that compilation is in accordance with SSARS
- City and State of accountant's practice
- Date of report and accountant's signature



SAMPLE OF A COMPILATION REPORT

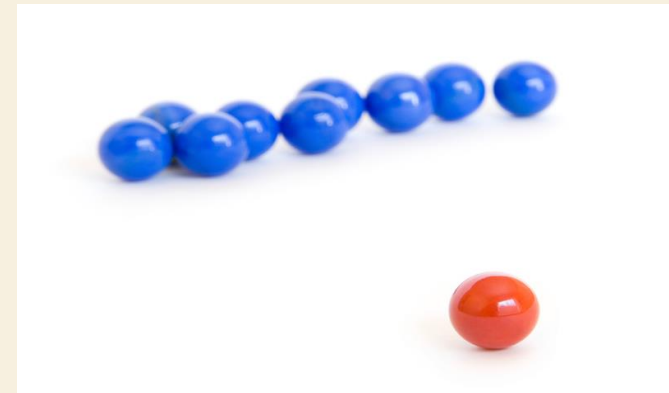
"Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of Dec. 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements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

What a mouthful...

AICPA, "SSARS No. 21 Statements on Standards for Accounting and Review Services: Clarification and Recodification." October 2014.

SECTION 80 – OTHER REQUIREMENTS

- Any lack of independence should be stated
- Special purpose framework
 - Modify to include description of special purpose framework, summary of significant policies and differences and similarities from GAAP
 - Reference management's responsibility for appropriateness





Address any omission performed and its effects on user's conclusions



Disclose any departures from framework and its effects



Address, state, and indicate degree of responsibility taken for supplementary information

Other-matter paragraph

SECTION 80 – OTHER REQUIREMENTS (CONT.)

PREPARATION VS. COMPILATION OVERVIEW

	Compilation	Preparation
When does the standard apply?	When an accountant is engaged to perform a compilation	When an accountant is engaged to prepare financial statements
Is an engagement letter required?	Yes	Yes
Is the accountant required to determine if he or she is independent of the client?	Yes	No
If the accountant is independent, is that to be disclosed?	Yes	N/A

PREPARATION VS. COMPILATION OVERVIEW (CONT.)

	Compilation	Preparation
Does the engagement require a report?	Yes	No
May the financial statements go to users outside of management?	Yes	Yes
May the financial statements omit notes?	Yes	Yes

PREPARATION VS. COMPILATION OVERVIEW

- Applies when engaged to perform a review
- May apply to historical financial information such as specified elements, accounts or items
- Limited assurance



SECTION 90 – REQUIREMENTS



Principles for performing and reporting on review engagements

Independence

Acceptance and continuance of client relationships

Agreement on engagement terms

Communication with management

SECTION 90 – REQUIREMENTS (CONT.)

- Understanding of the industry and entity
- Inquiries of members of management
- Reading and reconciling financial statements
- Written representations

MCHUMOR.com by T. McCracken





Designing and Performing Review Procedures

Obtain limited assurance

Focus on areas more vulnerable to material misstatement



Analytical Procedures



Accountant's review report

SECTION 90 - REQUIREMENTS (CONT.)

SECTION 90 – REQUIREMENTS (CONT.)



SECTION 90 – REQUIREMENTS (CONT.)

- Subsequent events and facts
- Reference to the work of other accountants
- Supplementary information
- Review Documentation



EDUCATE CLIENTS AND FINANCIAL STATEMENT USERS

- Schedule meetings
- Address the service of the nature provided
- What the service will entail
- The level of assurance, if any



Test



QUESTION #1

Q: Practically speaking, how does an engagement to prepare financial statements differ from a compilation engagement? Doesn't the accountant prepare financial statements in a compilation engagement?

A: Two main differences exist between a preparation engagement and a compilation engagement:

1. The accountant is required to issue a report when performing a compilation engagement while no report is required to be issued when the accountant prepares financial statements, but is not engaged to perform an audit, review, or compilation of those financial statements.
2. The accountant is required to determine whether he or she is independent when performing a compilation engagement while the accountant does not need to consider independence when preparing financial statements that he or she is not engaged to perform an audit, review, or compilation on.

QUESTION #2

Q: How does an agreement to prepare financial statements that the accountant will not subject to an audit, review, or compilation differ from an engagement to prepare financial statements that the accountant will subject to an audit, review, or compilation?

A: If the accountant is not engaged to perform an audit, review, or compilation of the financial statements that he or she is engaged to prepare, the accountant is required to perform the preparation service in accordance with Section 70 of SSARS No. 21. That involves, including a statement on each page of the financial statements, at a minimum, that “no assurance is provided on the financial statements.

If the accountant is engaged to prepare financial statements and engaged to perform an audit, review, or compilation of those financial statement, section 70 of SSARS No. 21 does not apply. The accountant would perform the audit, review, or compilation in addition to the nonattest service of preparing the financial statements.

QUESTION #3

Q: Are there specific situations when a preparation engagement is preferable or recommended compared to a compilation engagement, and vice versa?

A: The decision to perform a preparation engagement or a compilation engagement is determined based on the client's needs. The accountant should discuss with the client what kind of service best suits the particular financial reporting needs of the client, including possible third-party users of the financial statements and whether those users will want a report by the accountant on the financial statements.

QUESTION #4

Q: If the accountant prepares financial statements or assists in preparing financial statements, what are the implications for performing other engagements on those financial statements that require independence?

A: The preparation of financial statements is a nonattest service, as is an engagement to assist in the preparation of the financial statements. If the accountant prepares or assists in preparing financial statements and then performs a compilation, review, or audit on those financial statements, the accountant must comply with the requirements of §1.295, *Nonattest Services*, of the AICPA code of Professional Conduct

QUESTION #5

Q: Can the accountant be engaged to prepare monthly financial statements and also be engaged to perform a compilation engagement on the annual financial statements.

A: Yes. The accountant may use one engagement letter to document the preparation and compilation engagements. An example engagement letter illustrating this situation is provided in an exhibit to SSARS No. 21. Remember that because a compilation engagement requires the accountant to determine whether he or she is independent, the accountant would have to monitor independence during the year since performing a preparation engagement is considered a nonattest service.

QUESTION #6

Q: How does §70 of SSARS No. 21 apply when the accountant is engaged to assist a client in preparing financial statements, for example maintaining the client's property and depreciation records and providing monthly adjustments?

A: If the accountant is merely assisting the client in preparing financial statements (e.g. the accountant just prepares journal entries, or just prepares not disclosures), then the accountant is engaged in providing accounting or bookkeeping services and §70 of SSARS No. 21 does not apply.

QUESTION #7

Q: Does §70 of SSARS No. 21 apply if the accountant provides bookkeeping or accounting services to a client and utilizes the accounting software to generate or print financial statements?

A: §70 of SSARS No. 21 does not apply unless the accountant is engaged to prepare financial statements. That accountant may need to exercise judgement in determining whether he or she has been engaged to prepare financial statements.

Establishing a clear agreement prior to the start of the engagement with the client as to what the accountant is engaged to perform helps avert difficult judgements about the true nature of the engagement at a later time. If the accountant only has performed bookkeeping or accounting services or if the accountant only has assisted in preparing the financial statements, then generating or printing financial statements from the accounting software or from a cloud application does not constitute preparation of financial statements in accordance with §70 of SSARS No. 21.

QUESTION #8

Q: The accountant is involved in a bookkeeping engagement to assist the client with the preparation of financial statements by entering journal entries into the client's accounting software. If the accountant then remotely prints the financial statements at the firm's office for a client meeting, is the accountant required to follow the requirement of §70 of SSARS No. 21.

A: No. The issuance of SSARS No. 21, accountants no longer have to be concerned with the implications of submitting financial statements and "tripping" into the SSARSs. If the client did not engage the accountant to prepare financial statements, the requirements of § 70 of SSARS No. 21 does not apply.

QUESTION #9

Q: If financial statements are prepared by the accountant as a by-product of another engagement (e.g. engagement to prepare a tax return), is the accountant required to follow § 70 of SSARS No. 21 and include a special disclaimer or “no assurance” statement on those financial statements?

A: No. The accountant is only required to perform the preparation engagement in accordance with §70 of SSARS No. 21 when engaged to prepare financial statement. 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.

QUESTION #10

Q: If the accountant, who is not the client's author, is engaged to prepare financial statements that will be provided to an outside auditor for the purposed of the annual audit, is the accountant required to prepare the financial statements in accordance to §70 of SSARS No. 2 I?

A: Yes. Anytime the accountant is engaged to prepare financial statement, and also is not engaged to perform an audit, review, or compilation of those financial statements, §70 of SSARS No. 2 I applies.

QUESTION #11

Q: What happens to engagements to prepare management-use only (SSARS No. 8) financial statements?

A: With the issuance of SSARS No. 21, the accountant no longer needs to be concerned about distribution or use of the financial statement that he or she prepared. Pre-SSARS No. 21 engagements to compile financial statements for management-use only will transition to engagements to prepare financial statements in accordance with §70 of SSARS No. 21

QUESTION #12

Q: Which engagements are required to have a signed engagement letter?

A: All engagements performed in accordance with SSARS No. 21, preparation, compilation, and review engagements, require an engagement letter signed by both the accountant, or the accountant's firm and management or those charged with governance, as appropriate.

QUESTION #13

Q: Does the engagement letter need to be signed by the CPA firm or the engagement partner?

A: Whether the engagement letter is signed by the engagement partner or the CPA firm is a matter to be decided by the CPA firm as part of their quality control policies.

QUESTION #13

Q: Does the engagement letter need to be signed by the CPA firm or the engagement partner?

A: Whether the engagement letter is signed by the engagement partner or the CPA firm is a matter to be decided by the CPA firm as part of their quality control policies.

QUESTION #14

Q: Is a report required to accompany financial statements that the accountant has been engaged to prepare?

A: No. An accountant's report is not required to be issued in connection with a preparation engagement. Financial statements that the accountant is engaged to prepare need to contain a statement on each page of the financial statements indicating that no assurance is provided on the financial statements. If the accountant is unable to include such a statement, the accountant should issue a disclaimer that makes clear that no assurance is provided.

QUESTION #15

Q: In a preparation engagement, does the statement on each page of the financial statements indicating that “no assurance is provided” need to include the accounting firm’s name?

A: No. The name of the accounting firm is not required to be included in the “no assurance” statement placed on each page of the financial statements. However, an accountant is not precluded from including the name of the accounting firm in the no assurance statement, if he or she wishes to do so.

QUESTION #16

Q: Can the accountant prepare a client's financial statements and issue them on the accounting firm's letterhead?

A: Yes. This is a professional decision to be made by the accountant

QUESTION #17

Q: The accountant is engaged to prepare financial statements and is required to show comparative numbers for the prior year. The accountant previously issued a compilation report on those prior year financial statements. Is the accountant required to reissue his or her compilation report or refer to the previously issued report on the prior year financial statements?

A: No. As long as a statement is included on each page of the financial statements indicating that “no assurance is provided,” there is no requirement to reissue a report or reference that a report was issued on the prior year financial statements.

QUESTION #18

Q: The accountant is engaged to prepare financial statements but is unable to include a “no assurance” statement on each page of the financial statements. As such the accountant issues a disclaimer on the financial statements. Does the accountant have to refer to the disclaimer in the financial statements (e.g. placing wording at the bottom of the financial statements that indicate, “see accountant’s disclaimer”)?

A: No. A reference to the accountant’s disclaimer is not required. The accountant is not precluded from making reference to the disclaimer, if he or she wishes to do so.

QUESTION #19

Q: In a preparation engagement, if the accountant is aware that the financial statements that he or she prepared contains a departure from the applicable accounting framework (e.g. U.S. GAAP or an OCBOA such as the cash or tax-bases of accounting), does that departure need to be disclosed, and if so, where?

A: Yes. The departure is required to be disclosed in the financial statements, either on the face of the financial statements or in a note to the financial statements.

QUESTION #20

Q: If the accountant is engaged to prepare financial statements that omit substantially all disclosures, where does the accountant disclose that substantially all disclosures are omitted?

A: The accountant should disclose the omission in the financial statements either on the face of the financial statements or in a selected note to the financial statements. The disclosure made in the financial statement title, for example:

ABC Company
Balance Sheet – Substantially All Disclosures Omitted
December 31, 20XX

QUESTION #21

Q: When engaged to prepare financial statements, how does the accountant handle financial statements prepared on a basis determined by the client (e.g. modified cash basis financial statements with some client-determined adjustments)

A: As long as the financial statements are not misleading, the accountant can prepare financial statements in accordance with an entity-specific framework. However, the accountant needs to ensure that the framework is disclosed in the financial statements. In that case, the accountant would probably include a selected note in the financial statements because it might be difficult to describe the accounting framework on the face of the financial statements.

QUESTION #22

Q: Are there different documentation requirements in accordance with SSARS No. 21 compared to the pre-SSARS No. 21 Standards?

A: No significant changes have been made to the documentation requirements.

QUESTION #23

Q: Does §70 of SSARS No. 2 I apply to an accountant in public practice who is performing controllership or management services at a client and prepares the client's financial statements.

A: The SSARSs, including §70 of SSARS No. 2 I, are the authoritative literature for accountants in public practice who perform compilation, review, and preparation engagements for clients. The SSARS do not apply to CPAs not in public practice. Public practice is defined in ET §0.400 of the AICPA Code of Professional Conduct.

If the accountant is in public practice ***is not*** a stockholder, partner, director, officer, or employee of the client, the accountant is required to follow the SSARSs. Therefore, assuming that the accountant is not a stockholder, partner, director, officer, or employee of the client, §70 of SSARS No. 2 I applies when an accountant in public practice provides an entity with controllership or other management services and is engaged to prepare financial statements as part of the controllership or other management services agreement.

If the accountant is in public practice ***is*** a stockholder, partner, director, officer, or employee of the client, the accountant is not required to follow the SSARSs, including, in this case, §70 of SSARS No. 2 I. However, when an accountant in public practice prepares financial statement as a stockholder, a partner, a director, an officer, or an employee of a client using the accountant firm's letterhead or similar identification, the accountant should comply with the SSARSs, including §70 of SSARS No. 2 I.

QUESTION #24

Q: 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 statement under §70 of SSARS No. 21?

A: §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 §70 applies.

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 §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.

QUESTION #25

Q: If financial statements are prepared by the accountant as a by-product of another engagement (e.g. an engagement to prepare a tax return), and the accountant decides to give the client a copy of those financial statement even though the client did not specifically ask for them, is the accountant required to follow §70 of SSARS No. 21?

A: The account only is required to perform a preparation engagement in accordance with §70 of SSARS No. 21 when engaged to prepare financial statements. The key is reaching an understanding with the client about what the accountant has been engaged or hired to do. Because the accountant was not hired to prepare financial statements (they were prepared as a by-product of another engagement) the accountant's services would not fall within the scope of §70 of SSARS No. 21

With regard to providing a copy of the financial statements to the client when the client did not specifically ask for them, the accountant may consider what the client's reaction would be if a copy of the financial statements had not been given to the client. Would the client expect them and ask for them? Would the client say, "I need the financial statements for the bank?" If the answer is yes, then the accountant most likely has been engaged to prepare financial statements in addition to providing the other service, like preparing a tax return. In other cases, the accountant would be required to comply with the requirements of §70 of SSARS No. 21. If the answer is no, then the accountant has not entered into an engagement to prepare financial statements and the requirements of §70 of SSARS No. 21 do not apply

QUESTION #26

Q: If an accountant is in doubt about whether he or she is performing a preparation engagement or a compilation engagement, what should he or she do?

A: In accordance with SSARS No. 21, an accountant should never have any doubt whether he or she is required to perform a preparation engagement or a compilation engagement. Accountants need to talk with their clients and understand what the client expect and need. Does the client need the accountant to prepare financial statements? Does the client/client's financial statement users (e.g. banker) need a report on the financial statements? Asking questions of the client, explaining the array of possible engagement services, describing the outputs of the different engagement services, and recognizing who will be using the financial statements and what their expectations are, will help the accountant and client come to an unambiguous and accurate agreement related to the terms of engagement.

QUESTION #27

Q: Can you clarify how §70 of SSARAS No. 2 I applies to the preparation of personal financial statements?

A: §70 of SSARS No 2 I applies when an accountant is engaged to prepare personal financial statements in the same way it applies to the preparation of other historical financial statements. Also, §70 applies when an accountant is engaged to prepare personal financial statements for presentation alongside a financial plan.

However, §70 of SSARS No. 2 I does not apply when an accountant prepares financial statements for inclusion in written personal financial plans prepared by the accountant. This “exemption,” so to speak, recognizes that the accountant was engaged or hired, to prepare a personal financial plan and that the preparation of the financial statements is a by-product of that engagement.

QUESTION #28

Q: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 §70 of SSARS No. 21 apply?

A: It depends on what the client engages the accountant to do. If the client engaged the accountant to prepare financial statements, then, §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, §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.

QUESTION #29

Q: If the accountant is performing a (§70 of SSARS No. 21) or a compilation (§80 of SSARS No. 21) of December 31, 2015 financial statements and the financial statements include comparative 2014 financial statements, can the “no assurance is provided” legend for preparation engagements or the new report wording for compilation engagements be used for both years?

A: Yes. If the accountant is performing a preparation engagement, the “no assurance is provided” required statement or legend can be added to both the 2015 and 2014 financial statements, as well as prior periods. If the accountant is performing a compilation engagement, the new compilation wording introduced by SSARS No. 21 can be used for both years, as well as for unissued reports in other prior years.

QUESTION #30

Q: In an engagement to prepare financial statements, the accountant should ensure that a statement or legend is included on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the financial statements.

(Question #30a) Can that legend be added using a stamp or by electronic means?

(Question #30b) Where should the legend be placed on the page?

30A: Yes. The statement indicating that no assurance is provided on the financial statements can be added electronically, by computer, by stamp, by handwriting, by typing, or by similar means.

30B: The statement indicating that no assurance is provided on the financial statements can be placed anywhere on the page including the margins. A watermark is also acceptable. The CPEA recommends placing the legend on the bottom of the page.

QUESTION #31

Q: Are preparation engagements subject to peer review?

A: Firms that only perform preparation engagements under §70 of SSARS No. 21 are not required to enroll in the AICPA peer review program. However, a firm's preparation engagements are included in the scope of a peer review when the firm either elects to enroll in the peer review program (e.g. to comply with licensing or other requirements) or is already enrolled due to other engagements it performs.

QUESTION #32

Q: When preparing financial statements for a client under §70 of SSARS No. 21, are cover letters or transmittal letters using the firm's letterhead allowed?

A: Yes. §70 of SSARS No. 21 does not preclude an accountant from using cover letters or transmittal letters on the firm's letterhead to transmit the financial statements to the client.

QUESTION #33

Q: Is a management representation letter required in a preparation engagement?

A: No. A management representation letter is not required in a preparation engagement or compilation engagement. It is required in a review engagement. Paragraphs .32-.37 of AR-C §90 details the specific requirements of written representation.

QUESTION #34

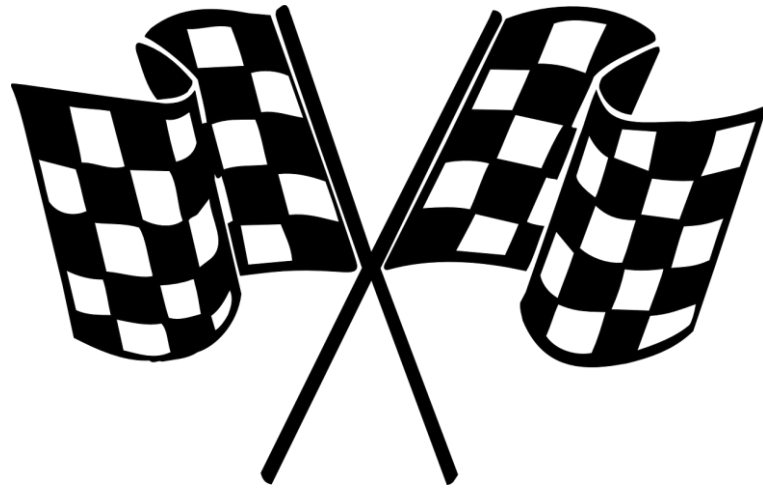
Q: If the accountant is engaged to prepare financial statements that omit substantially all disclosures, and discloses that fact in a selected note to the financial statements, does the phrase “see note to the financial statements” need to be inserted on the face of the financial statements?

A: No. §70 of SSARS No 21 does not require a reference to the note.

QUESTION #35

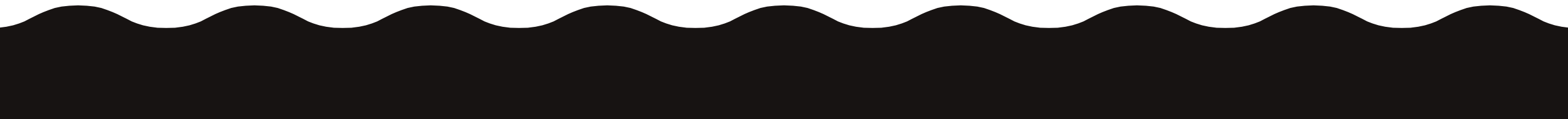
Q: §70 of SSARS No. 21 indicates that the engagement letter or other suitable form of written agreement should be signed by the accountant or the accountant's firm and management or those charged with governance, as appropriate. Can the signatures be electronic signatures or computer-generated signatures instead of manual signatures?

A: Yes. The signatures do not need to be manual. Electronic signatures can be used. However, some liability insurance carriers recommend obtaining manual signatures because authenticating an electronic signature in a lawsuit can be difficult.



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RESOURCES AND LINKS

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