

Brief Outline of the Statements on Standards for Accounting and Review Services (SSARS)

AR Section 100

General:

1. Applies to compilations and reviews of **nonpublic** company financial statements.
2. Not covered: Preparing a trial balance, assisting in adjustments, consulting on accounting or tax matters, preparing tax returns, preparing manuals, and processing financial data.
3. Requires compliance to Rule 201 (Compliance with General Standards)
4. Nonpublic entity -- any entity **not** traded in public market or makes filings with regulatory agency in preparation for public sales of securities or subsidiary, joint venture, etc. of/with a company that is "public."

Description:

1. Compilation: Presenting financial statements that are the presentation of management **without undertaking to express any assurance** on the statements.
2. Review: Performing inquiry and analytical procedures that provide the accountant with a **reasonable basis for expressing limited assurance** that there are no material modifications needed to be in conformance with GAAP or OCBOA.

Reporting Obligation:

- Issue report for highest level of service rendered if more than one type of service performed.
- Must comply with SSARS if submit to client or others financial statements:
 - Manually or computer generated by accountant (i.e., bookkeeper for client)
 - Modify client submitted financial statements.
- Not included:
 - Read client prepare FS
 - Type or reproduce FS for client (without modification)
 - Propose (but don't do) AJEs or disclosures
 - Prepare monthly AJEs for client to use.
 - Provide a format for FS
 - Advise above software selection
 - Provide computer time to client

Establish Understanding with the Entity – ideally in writing

Process for a Compilation of Financial Statements

1. Possess knowledge of the accounting principles and practices of the industry
2. Possess a general understanding of the nature of the entity's business transactions, form of its accounting records, the stated qualifications of its account personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements. (Obtain through inquiry and direct knowledge.)

3. Cannot ignore knowledge (from any source) that indicates problems with the FS.
 - a. should obtain additional or revised information
 - b. withdraw if additional or revised information not provided
4. Read financial statements for appropriate form and freedom from obvious material errors.
5. Not required to make inquiries or other procedures to corroborate information.

Reporting on the Financial Statements (Compilation)

1. Standard report contains two paragraphs
2. Report has no title (independence assumed – see number 11)
3. State followed SSARS
4. State limited to presenting representations of management
5. State not been audited or reviewed -- does not express an opinion or any other form of assurance on them
6. Date of completion of compilation = date of report
7. Each page of FS should state: "See Accountant's Compilation Report"
8. Can do piecemeal reporting
9. Statement of Retained Earnings may be omitted
10. **Modified report:** Disclosures omitted – report (in a third paragraph) must state fact clearly and indicate lack of knowledge may affect users' decisions.
11. **Modified report:** Lack independence – disclose
12. Documented (such as in engagement letter) limited distribution – can omit report.

Process for a Review of Financial Statements

1. Posses level of knowledge of the accounting principles and practice of the industry in which the entity operates and an understanding of the entity's business
2. Understanding includes a general understanding of the entity's organization, its operating characteristics, and the nature of its assets, liabilities, revenues, and expenses. i.e., general knowledge of production, distribution, and compensation methods, types of products and services, operating locations, and material transactions with related parties.
3. Inquiry and analytical procedures;
 - a. Inquiries on accounting principles and practices and the methods followed
 - b. Inquiries about entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements.
 - c. Inquiries about significant transactions near end of year, status of uncorrected items from previous engagement, questions that have arisen during review, subsequent events, knowledge of fraud or suspected fraud, significant journal entries or other adjustments, and communications from regulators.

- d. APs designed to identify relationship and individual items that appear to be unusual
 - Comparisons to prior periods
 - Compare to anticipated results
 - Examine relationships between elements
 - Compare to relevant nonfinancial information
 - Comparison to entities in the same industry
 - e. Inquiries - actions taken at meetings of stockholders, board of directors, etc.
 - f. Read the financial statements
 - g. Obtain reports from other accountants, if any
 - h. Inquiries of FS preparers about following GAAP, changes, questions, and subsequent events.
4. Obtain written representation letter
 5. Do NOT obtain an understanding of internal controls, assess control risk, or tests of details of balances. However, cannot ignore potential misstatements and should perform procedures appropriate to pursue issues that arise.
 6. Should have workpapers documenting work completed and conclusions.

Reporting on the Financial Statements (Review)

1. Consists of three paragraphs
2. Report does not have title
3. State review was performed
4. State information a representation of management
5. State used inquiries and AP.
6. State less in scope than an audit
7. State **not aware** of material misstatements
8. Do not include description of procedures beyond the norm
9. Must be signed by accounting firm
10. Date as of date of completion of information gathering
11. FS pages = "See Accountant's Review Report"
12. Other issues:
 - Can omit the Statement of Retained Earnings
 - Scope limitations preclude issuing a Review Report (may be able to issue Compilation)
 - Can do piecemeal reporting (but not if scope restricted)
 - Lack of independence - cannot issue Review Report

Modified Report - Departure from (GAAP)

- Disclose in separate paragraph, including effects if known (not required to determine)
- Concluding paragraph – “with the exception of” or “except for”
- With proper disclosure – Substantial doubt about a going concern or inconsistency not mentioned.
- Withdraw if deficiencies are significant (no adverse report available)

Subsequent discovery of facts - SAS standards apply

Supplementary information - clearly state responsibility

Change in Engagement from Audit to Review or Compilation

- Consider the following:
 - Reasons for request
 - Additional effort required to finish original objective
 - Additional cost to complete original objective
- Changes:
 - Change in circumstance
 - Misunderstanding
 - Restriction of scope - normally precluded from changing engagement
 - Client refusal to do representation letter (audit or review) precludes compilation
- No reference to change made in report.

Comparative Financial Statements

- Follow SAS guidelines
- Continuing at same or higher level
 - Reissue report for prior period
 - Lower – separate paragraph describing responsibility

Predecessor/successor – Successor may (or may not) choose to contact.

Summary of Differences between Compilation, Review and Audit

Task	Required for Compilation	Required for Review	Required for Audit
Obtain knowledge of the accounting principles and practices of the entity's industry.			
Establish an understanding with the entity regarding the nature and limitations of the services to be performed.			
Make inquiries concerning actions taken at board of directors' meetings.			
Communicate with the predecessor accountant to obtain access to the predecessor's working papers.			
Obtain an understanding of the entity's internal controls.			
Perform analytical procedures designed to identify relationships that appear to be unusual.			
Make an assessment of control risk.			
Send a letter of inquiry to the entity's attorney to corroborate the information furnished by management concerning litigation.			
Obtain a management representation letter.			
Study the relationship of the financial statement elements that would be expected to conform to a predictable pattern.			
Make inquiries about events subsequent to the date of the financial statements that would have a material effect on the financial statements.			
Modify the accountant's report if there is a change in accounting principles that is adequately disclosed.			
Perform specific procedures to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern.			
Maintain independence with respect to the entity.			