

Changes in Review and Compilation Standards Adopted

Business owners, bankers, sureties and other users of financial statements should expect changes in the review and compilation reports that accompany the annual financial statements they receive. The American Institute of Certified Public Accountants' (AICPA) Accounting and Review Services Committee just issued the biggest change in professional literature for compilation and review engagements since Statement on Standards Accounting and Review Services No. 1 was issued in 1978. This new statement, SSARS No. 19, is effective for financial statements issued for periods ending on or after December 15, 2010. Early implementation is permitted when the accountant's independence is impaired. Below are the basic changes brought on by the new rules that may be important to you as the business owner or other user of the statements.

Written engagement agreement required

Previously, a written agreement between the accountant and the client regarding the services to be performed was recommended, but not required, for compilations and reviews. Under the new pronouncement, written agreements are required. Companies should expect to see these engagement letters.

Report format for compilations and reviews will change

SSARS No. 19 has revised the reporting requirements for compilation and review engagements to make the reports clearer as to management's responsibilities and the accountant's responsibilities. Specifically, the compilation report is split into three clear paragraphs and the review report is split into four clear paragraphs. You should expect to see paragraphs added to the compilation report and modification in wording and a paragraph added to the review report.

Allowance of additional procedures for reviews when necessary

Another change brought about by the new pronouncement is that it requires the accountant to use professional judgment in determining and tailoring the specific procedures to obtain a limited level of assurance that the financial statements are free of material misstatement when performing a review. This could include incorporating audit type procedures if deemed appropriate. During a review, if an accountant becomes aware that there may be a material misstatement, they should perform additional procedures, even if the procedures are of an audit type nature. The new pronouncement makes clear that these additional audit type procedures can now be consistent with that limited assurance. The pronouncement clarifies that this additional work does not change the engagement from a review to an audit, clearing up what had been a common misconception in the past. SSARS No. 19 places more emphasis on tailoring the procedures for each review engagement based on risks and potential misstatements. Where certain analytical procedures and inquiries worked with one client, they may not work with another. Accountants are required to use professional judgment as to whether these typical procedures work with their client.

Increased communication with management

Communication between management and the accountant has increased with this new statement. Any findings or issues that are significant must be communicated to management. Significant questions and management's responses must also be documented.

Summary

Recently issued SSARS 19 contains the most substantial revisions to the standards for review and compilation services since 1978.

Documentation requirements for both compilations and reviews have been expanded and the form of the reports has been revised.



Additional documentation required for reviews

In addition to the requirement for an engagement letter for all review engagements, the accountant's documentation in a review has expanded considerably. The accountant is now required to document management's responses to inquiries regarding fluctuations or relationships, any significant matters, and findings or issues using either memorandums, checklists, or other methods. This documentation should include results of review procedures, actions taken to address findings, and the basis for final conclusions reached.

Reason for independence impairment can be disclosed in a compilation

Currently, for compilation engagements, if an accountant's independence is impaired, it is disclosed in the compilation report; however, the rules prohibited disclosure of the reason for impairment in the compilation report. With SSARS No. 19, accountants now have the option to explain why their independence is impaired. If they decide to disclose this in the report, they have to disclose all reasons. The thought behind this was that users of the statements wanted to know if independence was impaired based on financial reporting assistance or based on a financial interest or other relationships with the company.

In summary, expect changes to be coming your way whether they are your financials or you are another user of the financials. Feel free to contact TKW with any questions or help in this transition.

