

Statement on Standards for Accounting and Review Services No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*



A summarization of the SSARs Clarity Project and SSARS No. 21

Statement on Standards for Accounting and Review Services (SSARS) No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* was issued in October 2014. SSARS No. 21 represents the AICPA’s Accounting and Review Services Committee’s (ARSC) efforts to clarify and revise the standards for reviews, compilations, and engagements to prepare financial statements.

SSARs Clarity Project

With the release of Statement on Auditing Standards (SAS) Nos. 122–124 in October 2011, the Auditing Standards Board (ASB) reached a major milestone in its project to redraft all of the auditing sections in AICPA *Professional Standards*. The clarified auditing standards are designed to make the standards easier to read, understand, and apply.

The ARSC concluded that undertaking a similar clarity project for the SSARs would serve the public interest and ensure that all professional literature for audits, reviews, and compilations are drafted using the same conventions. In addition, the resulting clarified compilation and review standards would be easier to read, understand, and apply.

In May 2010, the ARSC approved a project to revise all its existing compilation and review standards in the AR sections of AICPA *Professional Standards*, substantially using the drafting conventions adopted by the ASB in clarifying the auditing literature.

The ARSC determined, however, that there would be certain differences between its clarity drafting conventions and those adopted by the ASB. Specifically, the ARSC determined not to include specific application guidance with respect to governmental entities and smaller, less complex entities.

Accordingly, the ARSC’s clarity drafting conventions include the following:

- Establish objectives for each clarified AR section.
- Include a definitions section, if relevant, in each clarified AR section.
- Separate requirements from application and other explanatory material.
- Number application and other explanatory material paragraphs with the prefix “A-” and present them in a separate section that follows the requirements section.
- Use formatting techniques, such as bulleted lists, to enhance readability.

SSARS No. 21

In addition to clarifying the standards, SSARS No. 21 includes significant revisions that affect the standards for accountants in public practice who prepare financial statements for their clients. This standard is effective for reviews, compilations, and engagements to prepare financial statements for financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

SSARS No. 21 is structured as follows:

Section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*— Provides general principles for SSARSs engagements.

Section 70, *Preparation of Financial Statements*— Provides requirements and guidance to an accountant who is engaged to prepare financial statements for an entity but not engaged to perform a compilation, review, or audit with respect to those financial statements.

Section 80, *Compilation Engagements*— Provides requirements and guidance to an accountant when engaged to perform a compilation engagement on financial statements

Section 90, *Review of Financial Statements*—provides requirements and guidance to an accountant when engaged to review financial statements

The sections of SSARS No. 21 will be codified in AICPA *Professional Standards* as AR-C sections using the same section numbers as SSARS No. 21. For example, section 90 of SSARS No. 21 will be codified in the AICPA *Professional Standards* as AR-C section 90, *Review of Financial Statements*. The pre-clarified AR sections will remain in *Professional Standards* until the clarified standards are fully effective.

Section 60—General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services

Section 60 of SSARS No. 21 replaces AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*), and provides general principles for engagements performed in accordance with SSARSs. Section 60 is intended to help accountants better understand their professional responsibilities when performing engagements in accordance with SSARSs.

An accountant engaged to perform a review, a compilation, or an engagement to prepare financial statements is required to adhere to the requirements in section 60 as well as the requirements in the appropriate engagement section.

Section 60 includes requirements and guidance on the following:

- Ethical requirements
- Professional judgment
- Conduct of the engagement in accordance with SSARSs
- Engagement level quality control
- Acceptance and continuance of client relationships and engagements

Requirement to Obtain a Signed Engagement Letter

The accountant is required to agree upon the terms of the engagement for all SSARSs engagements with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement. 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. The requirement that management sign the engagement letter is intended to better ensure that management has read the letter and understands the terms of the engagement.

Section 70—Preparation of Financial Statements

Section 70 of SSARS No. 21 applies when an accountant in public practice is engaged to prepare financial statements but is not engaged to perform an audit, review, or a compilation on those financial statements. The section does not apply in situations in which the accountant is not in public practice. An engagement to prepare financial statements is a nonattest service; therefore, the accountant is not required to make a determination regarding independence from the entity.

A report is not required—even when financial statements are expected to be used by or presented to a third party. To ensure that users can readily identify that the accountant is not providing any assurance on the financial statements, the accountant should include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the financial statements. The accountant’s name need not be included in the statement. Software vendors are already working to include the legend in the accounting software.

If the accountant is unable to include a statement on each page of the financial statements, the accountant is required to either

- issue a disclaimer that makes clear that no assurance is provided on the financial statements or
- perform a compilation engagement in accordance with section 80 of SSARS No. 21.

The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service not subject to SSARSs) is based on the services the client requests the accountant to perform and requires the accountant to apply professional judgment. The following table provides examples of services that the accountant may be engaged to perform and notes whether section 70 of SSARS No. 21 would apply. The table is not intended to be all inclusive and professional judgment still needs to be applied.

Examples of Services for Which Section 70 Applies	Examples of Accountant Services for Which Section 70 Does Not Apply
Preparing financial statements prior to audit or review by another accountant	Preparing financial statements when the accountant is engaged to perform an audit, review, or compilation of such financial statements
Preparing financial statements that are not expected to be used by a third party (management-use only financial statements)	
	Preparing financial statements solely for submission to taxing authorities
	Preparing personal financial statements for inclusion in written personal financial plans prepared by the accountant
	Preparing financial statements in conjunction with litigation services that involve pending or potential legal or regulatory proceedings
	Preparing financial statements in conjunction with business valuation services
	Maintaining depreciation schedules
	Preparing or proposing certain adjustments, such as those applicable to deferred income taxes, depreciation, or leases

Preparing a single financial statement, such as a balance sheet or financial statements with substantially all disclosures omitted	Drafting financial statement notes
Using the information in a general ledger to prepare financial statements outside of an accounting software system	Entering general ledger transactions or processing payments (general bookkeeping) in an accounting software system

Section 80—Compilation Engagements

Section 80 of SSARS No. 21 modifies the applicability of the compilation literature. Pre-clarity AR section 80, *Compilation of Financial Statements* (AICPA, *Professional Standards*) applies when an accountant is either

- engaged to report on compiled financial statements or
- *submits* financial statements to the client or to third parties.

Submission is defined as “prepares and presents.” Section 80 of SSARS No. 21 eliminates the need for the accountant to determine who prepared the financial statements by eliminating the submission requirement and making the compilation literature apply when the accountant is *engaged* to perform a compilation service.

The primary changes in the compilation literature include the following:

- A report is now required for all compilation engagements
 - It is no longer necessary to have the non-reporting exception that was previously afforded for financial statements that were prepared and presented by an accountant to management that were not intended for third party use. Such engagements will be covered by section 70.
- The compilation report is now streamlined to differentiate from assurance (review and audit) reports consisting of one paragraph with no headings.
- Additional paragraphs are required when
 - the financial statements are prepared in accordance with a special purpose framework.
 - management elects to omit substantially all disclosures required by the applicable financial reporting framework.
 - when the accountant’s independence is impaired.
 - there is a known departure from the applicable financial reporting framework.
 - supplementary information accompanies the financial statements and the accountant’s compilation report thereon.

Section 90—Review of Financial Statements

Section 90 of SSARS No. 21 is primarily a clarity redraft of the pre-clarity review literature with very few changes.

SSARS No. 21 does make clear that section 90 may be applied to historical financial information other than historical financial statements, such as specified elements, accounts, or items of a financial statement; supplementary information; required supplementary information; and financial information included in a tax return.

The accountant’s review report will look different as SSARS No. 21 requires the use of headings in the report. The accountant is also required to name the city and state of the issuing office. The

requirement will be met if the accountant's review report is presented on the accountant's letterhead and the letterhead contains the city and state of the issuing office.

Although pre-clarity AR section 90, *Review of Financial Statements* (AICPA, *Professional Standards*), states that emphasis paragraphs are never required, section 90 of SSARS No. 21 requires the accountant to include an emphasis-of-matter or other-matter paragraph in the accountant's review report relating to the following matters:

- Financial statements prepared in accordance with a special purpose framework
- A changed reference to a departure from the applicable financial reporting framework when reporting on comparative financial statements
- Reporting on comparative financial statements when the prior period is audited
- Reporting a known departure from the applicable financial reporting framework that is material to the financial statements
- Reporting when management revises financial statements for a subsequently discovered fact that became known to the accountant after the report release date and the accountant's review report on the revised financial statements differs from the accountant's review report on the original financial statements
- Supplementary information that accompanies reviewed financial statements and the accountant's review report thereon
- Required supplementary information

Section 90 of SSARS No. 21 introduces the requirement that the accountant include an other-matter paragraph in the accountant's review report when the accountant considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the accountant's professional judgment, is relevant to the users' understanding of the review, the accountant's responsibilities, or the accountant's review report.

In addition, section 90 of SSARS No. 21 requires the accountant to include an emphasis-of-matter paragraph in the accountant's review report when the accountant considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to the user's understanding of the financial statements, provided that the accountant does not believe that the financial statements may be materially misstated.

If the accountant expects to include an emphasis-of-matter or other-matter paragraph in the accountant's review report, section 90 of SSARS No. 21 requires the accountant to communicate with management regarding this expectation and the proposed wording of this paragraph.

Pre-clarity AR Sections

SSARS No. 21 will supersede all pre-clarity AR sections in AICPA *Professional Standards*, with the exception of AR section 120, *Compilation of Pro Forma Financial Information* (AICPA, *Professional Standards*). AR section 120 will be superseded by an additional clarity SSARS at a future date.

Other Helpful Information and Resources

The AICPA Audit & Attest Standards Team maintains a web page dedicated to the ARSC Clarity Project, which contains valuable implementation resources for SSARS No. 21. The web page is available at <http://www.aicpa.org/SSARSClarity>. The web page will be updated frequently so, please check back often.

Additionally, AICPA Risk Alert *Developments in Review, Compilation, and Financial Statement Preparation Engagements—2014/15* serves as a valuable information resource and is available from the AICPA store at <http://www.cpa2biz.com/ssars21>.

Also, the AICPA Accounting and Auditing Technical Hotline is available for any questions that you may have. You can reach the Hotline at 877.242.7212, via e-mail at techinquiry@aicpa.org, and on the web at <http://www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx>

DISCLAIMER: This publication has not been approved, disapproved or otherwise acted upon by any senior committees of, and does not represent an official position of, the American Institute of Certified Public Accountants. It is distributed with the understanding that the contributing authors and editors, and the publisher, are not rendering legal, accounting, or other professional services in this publication. If legal advice or other expert assistance is required, the services of a competent professional should be sought. Copyright © 2014 by American Institute of Certified Public Accountants, Inc. New York, NY 10036-8775. All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please email copyright@aicpa.org with your request. Otherwise, requests should be written and mailed to the Permissions Department, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.