

**AICPA WHITEPAPER**  
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**Comments by Tom Elam**

**INTRODUCTION:**

The AICPA is making an effort to justify changes in the compilation standards by using an internal technical analysis of our standards — known to us but not to outsiders. Maybe we need to back away and review our current standards and interpretations from a more common sense analysis. Let's not focus too much on our inside stuff. Let's focus on a broader perspective and focus on the perspective of clients and other users of financial statements.

That's the foundation that drives the following comments with respect to this whitepaper.

**COMPILATION VS. INDEPENDENCE:**

The whitepaper shares the formal definition of an attest engagement contained in the Code of Ethics "... an engagement that requires independence ...". The whitepaper then shares that a compilation is included in the definition of an attest engagement. However, a footnote says, "Although independence is not a precondition to performing a compilation, the compilation standards do include a reporting requirement to disclose when the CPA is not independent. Therefore, because the compilation standard includes an independence requirement it is, by definition, an attest engagement."

**COMMENT:**

Even though I'm fine with a treatment that puts a compilation in the attest engagement category, I struggle with the premise that the wording of our standards truly leads us to that treatment.

There seems to be some double-talk here.

Straight-talk would say: Lack of independence precludes reviews or audits, but lack of independence does not preclude a compilation as long as such lack of independence is disclosed — therefore, a compilation is not an attest engagement.

Other than a convenient conclusion within ourselves, I don't see how one takes the previous sentence and turns it into a conclusion that a compilation requires independence and thus is an attest engagement. To me, you can't get there with what we have. If we want to clarify something, there's something we can work on.

I see some double-talk here and my fear is that double-talk impregnates our thinking process on these compilation changes.

**THE AICPA IS DECLARING THAT THE PREPARATION OF FINANCIAL STATEMENTS IS A NONATTEST SERVICE (ROOTED IN A CAPITULATION TO A GOVERNMENT ANNOUNCEMENT) AND THE AICPA IS ABANDONING A COMPILATION AS OUR LOWEST LEVEL OF SERVICE:**

We are going to declare that preparing financial statements is a nonattest service and then "clarify" that we always felt that way.

**COMMENT:**

Though we are internally declaring that preparation is a nonattest service, this seems to be a misdirection focus that will ultimately not match up with the logical and common sense views of clients and users who put a lot of weight on preparation. We may conveniently put preparation into the nonattest category for some perceived internal advantage — but clients and users dearly want us to "prepare." Most clients of CPA firms prefer our involvement because they perceive a better situation. Users certainly feel that way. We can declare our lack of responsibility all we wish, but users still prefer our involvement. They want our preparation involvement in spite of our lack of responsibility for the amounts (and let's not be in denial — the numbers are where our responsibility truly ends — yet we have never been able to bring ourselves "to say" the amounts are management's numbers). Then, after clarification in our report about the preparation matter, clients and users will continue to readily accept our positions regarding lack of responsibility and no assurance. Confessing and clarifying the preparation issue is more important than "submit" ever was.

I don't think many CPAs (who fully-prepare, or assisted in preparing, financial statements) consider themselves outside of 101-3. They may struggle with some of the perceived requirements of 101-3 but they never gave a lot of thought to circumventing 101-3 on the premise that preparing should give them such right. We don't strive to circumvent 101-3. We just want more logic in 101-3 in a few areas.

Putting preparation in the nonattest category is okay but it is not the true issue. The issue is preparing, or involvement in preparing, and the fact that clients and users want us to perform preparation services — regardless of the category "we" put it in. The profession should simply accept that users want us to prepare and they want us to say that we prepared or assisting in preparing. [And a compilation should be our lowest level of service when we fully-prepare or assist in preparing.] The profession should let "prepare" hold the status it deserves. The profession understands, and users understand, what prepare means. The profession can fully-prepare, assist in preparing, or consult as to preparation; describe such in our compilation report; and the world will not be confused. Then we can describe the compilation steps (which typically aren't that time consuming once preparation is finished — i.e., a client has no problem paying for preparation and the compilation steps typically don't add that much to fees for a particular client — particularly for small clients who omit disclosures). By focusing on "prepare" and not focusing on "submit," clients, users, and CPAs will be better off and the profession will maintain its relevancy to client financial statements (when we become involved in any manner). Abandoning compilation as our lowest level of service — in favor of "unaudited" — will not be in the best interest of the profession or clients in the long run. Of course, nothing keeps a client from issuing financial statements with which we are not involved, i.e., we neither (1) fully prepare, (2) partially prepare, or (3) consult thereon.

If we are involved with a client's financials in any one of these three capacities, the client will accept our compilation requirement — as it is now. We would not be compelling a client to "do" a compilation. By "lifting up" preparation we would be protecting our relevancy to financial statements by requiring a compilation only when we become involved. No involvement — no compilation. A client can always leave us entirely out of the loop as to preparing and, of course, still issue its financials.

The realistic issue is that users and clients (particularly clients of small CPA firms) desire our involvement. Therefore, the profession needs to face and embrace their desire; clarify preparation in the compilation report; and thereby maintain our stature and relevancy — with compilation work being our lowest level of service when we are involved with the financial statements.

To users and clients, the preparation concept is more important than the profession seems willing to admit. Of course, after giving preparation its due measure, clarity regarding the responsibilities of management and the responsibilities of the CPA is important, too. De-emphasizing preparation to the point that we go back to "unaudited" just does not seem to be the answer. As forensic detective Qong said in the OJ trial, "Something not right here!"

The whitepaper says, "ARSC came to the conclusion that if management wanted a report on its financial statements, regardless of who prepared the financial statements, then management should engage the member to perform an attest service." Since preparation is more important than we seem to admit, this seems to be somewhat of a cop-out. The honest issue is that management wants our involvement. And with our involvement comes our "report." We should not cop-out when we are involved (whether preparing, assisting, or consulting).

The profession needs to be transparent about preparation because clients and users place great weight on preparation (in the final analysis, the weight the profession puts on preparation, or the category assigned to preparation, is an inside thing for us at best). The classification and weight "we put on" preparation should be somewhat academic. It is the weight clients and users put on preparation and involvement that is most important. Compilation should be the requirement we place on preparation and involvement.

Remember: it is important for us to view ourselves and our work through the eyes of clients and users — not merely through our own eyes.