EXPOSURE DRAFT

PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

COMPILATION ENGAGEMENTS

(To supersede paragraphs 1.05–.06 and 2.01–.64 of Statement on Standards for Accounting and Review Services [SSARS] No. 19,* Compilation and Review Engagements *[AICPA,* Professional Standards, paragraphs .05-.06 of *AR sec. 60 and* AR sec. *80]; SSARS No. 13,* Compilation of Specified Elements, Accounts, or Items of a Financial Statement*, as amended [AR sec. 110]; SSARS No. 3,* Compilation Reports on Financial Statements Included in Certain Prescribed Forms*, as amended [AR sec. 300]; and SSARS No. 6,* Reporting on Personal Financial Statements Included in Written Personal Financial Plans *[AR sec. 600].)

June 3, 2013

Comments are requested by October 4, 2013

Prepared by the AICPA Accounting and Review Services Committee for comment from persons interested in compilation and reporting issues.

Comments should be addressed to Mike Glynn at mglynn@aicpa.org.

CONTENTS

EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to the proposed Statement on Standards for Accounting and Review Services (SSARS) *Compilation Engagements*. The proposed SSARS would supersede

- paragraphs 1.05–.06 and 2.01–.64 of SSARS No. 19, *Compilation and Review Engagements* (AICPA, *Professional Standards*, paragraphs .05-.06 of AR sec. 60 and AR sec. 80);
- SSARS No. 13, *Compilation of Specified Elements, Accounts, or Items of a Financial Statement*, as amended (AICPA, *Professional Standards*, AR sec. 110);
- SSARS No. 3, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*, as amended (AICPA, *Professional Standards*, AR sec. 300); and
- SSARS No. 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* (AICPA, *Professional Standards*, AR sec. 600).

The accompanying proposed SSARS applies the Accounting and Review Services Committee's (ARSC's) clarity drafting conventions. However, it should not be considered simply a clarity redraft of the extant SSARS as it represents a significant repositioning of the compilation service that differs from extant standards in several important aspects. Those aspects are discussed within this document.

The proposed SSARS would result in AR section 80, *Compilation Engagements* in the codified SSARSs.

Background

Clarity

ARSC has concluded that it would be in the public interest to have all of the professional literature for audits, reviews, and compilations drafted using the same conventions and therefore has substantially utilized the clarity drafting conventions utilized by the Auditing Standards Board (ASB) in its clarity project. ~~In addition, t~~The resulting clarified compilation and review standards ~~would~~ will be easier to read, understand, and apply.

~~ARSC has determined, however, that there would be certain differences between its clarity drafting conventions and those adopted by the ASB. Specifically, ARSC has determined to not include specific application guidance with respect to governmental entities and smaller, less complex entities. Specific application guidance is not included with respect to smaller, less complex entities because the SSARSs are generally used by accountants of such entities and, as such, specific guidance is not necessary. Accordingly, t~~The proposed SSARSs have been drafted in accordance with ARSC's clarity drafting conventions, which include the following:

- Establishing objectives for each clarified AR section

- Including a definitions section, where relevant, in each clarified AR section
- Separating requirements from application and other explanatory material
- Numbering application and other explanatory material paragraphs using an A- prefix and presenting them in a separate section that follows the requirements section
- Using formatting techniques, such as bulleted lists, to enhance readability

Convergence

~~Whereas~~ Although the ASB used, where applicable, the corresponding International Standards on Auditing as a base when drafting each clarified auditing standard, the ARSC has not considered convergence with International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements* as the objective of ISRS 4410 is not compatible with the proposed SSARS.

Effective Date

The proposed SSARS would be effective for compilations of financial statements for fiscal years (and interim periods within those years) beginning on or after December 15, 2014. Early implementation would be permitted.

Changes From Existing Standards

The following represents what ARSC believes would be the most significant changes to extant SSARSs if the proposed SSARS *Compilation Engagements* is issued as final a SSARS.

Compilation as a nonattest engagement

The AICPA Professional Ethics Executive Committee (PEEC) has revised Ethics Interpretation 101-3 "Nonattest Services." Among the revisions is a clarification that financial statement preparation is considered outside of the scope of the attest engagement and therefore, constitutes a nonattest service. ARSC is supportive of this clarification and notes that it is in harmony with how the 2011 edition of *Government Auditing Standards* (the Yellow Book) treats the preparation of financial statements. The clarification is also consistent with the views of ~~many~~ practitioners who believe that the preparation of financial statements is a responsibility of management and an essential part of an entity's system of internal control.

Because the PEEC ~~now defines~~has clarified that financial statement preparation ~~as~~ is a nonattest service in all circumstances, the ARSC is proposing to reposition the compilation service as a nonattest service to conform to the PEEC's definition. As preparation and reading of financial statements is the substance of a compilation of financial statements ~~therefore~~, the ARSC believes that it is reacting appropriately to the PEEC's ~~revision~~clarification.

In order to effect the repositioning of the compilation engagement as a nonattest service, the ARSC proposes to remove the independence reporting requirement from the SSARSs. This, ~~W~~while an accountant would not be precluded from disclosing independence status, the accountant would no longer be required to disclose when ~~his or her~~ independence is impaired, except as required by the AICPA Code of Professional Conduct. Not being required to disclose independence status would be consistent with other nonattest services such as bookkeeping and tax preparation. ~~An accountant who decides to disclose a description about the reasons the accountant's independence is impaired would be required to include all of the reasons in the description which would be in the public interest.~~ The repositioning of the compilation engagement as a nonattest service would align the SSARS with ~~many~~ certain state laws and would remove any misunderstanding around attest vs. assurance services.

In addition, the ARSC is mindful of the potential for confusion with the terms *compile* and *prepare*. Therefore, the ARSC is proposing to clarify the situation by specifically stating that the two terms are synonymous. Accordingly, a compilation engagement is ~~treated as~~ a preparation service.

Specific question to respondents
Q1. The ARSC asks for specific feedback as to whether respondents are supportive of the repositioning of the compilation engagement as a nonattest service.

Statement~~/~~ or legend on each page of the financial statements

In order to be transparent to users of compiled financial statements and therefore in the public interest, the ARSC proposes that each page of the compiled financial statements include a statement or legend that ~~a~~ no CPA ~~does not~~ provides any assurance on the financial statements. If management agrees to include an appropriate statement or legend on each page of the compiled financial statements, the accountant would not be required to issue a report because an appropriate statement or legend communicates substantially the same lack of assurance as a compilation report. If management does not agree to include that statement or legend, ~~so~~ in order that users of the financial statements are not misle~~a~~d by the accountant's involvement with the financial statements, the accountant would be required to issue a report as a result of the compilation engagement. Examples of an adequate statement or legend on each page of the financial statements include:

- No CPA provides any assurance on these financial statements
- These financial statements have not been audited or reviewed and no CPA provides any assurance on them

The accountant would be required to consider the adequacy of the statement or legend that management includes on the financial statements.

If the accountant does not issue a compilation report, the accountant's name is not required to be included in the financial statements or any document that contains the financial statements.

Specific question to respondents
Q2. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed requirement that each page of the compiled financial statements include a statement or legend that ~~a~~ no CPA ~~does not express an opinion or~~ provides any assurance on the financial

statements or the accountant would be required to issue a report as a result of the compilation engagement.

Effect on Engagements to Compile Financial Statements That Omit Substantially All Disclosures

Nothing in the proposed SSARS would restrict the accountant's ability to compile financial statements that omit substantially all disclosures required by the applicable financial reporting framework. As with current standards, the accountant may compile such financial statements provided that the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading ~~those who might reasonably be expected to~~ users of such financial statements.

~~However, t~~The proposed SSARS provides additional flexibility ~~for~~to accountants by allowing management to disclose, within the statement or legend regarding the nonassurance element of the compilation engagement or in the financial statement titles, that the financial statements omit substantially all disclosures required by the applicable financial reporting framework ~~within the statement or legend regarding the nonassurance element of the compilation engagement or in the financial statement titles~~. For example, the statement or legend may read "No CPA provides any assurance on these financial statements. These financial statements omit substantially all disclosures required by accounting principles generally accepted in the United States of America." If management chooses to disclose departures from the applicable financial reporting framework in the title to the financial statements, such title may read "Balance Sheet – Substantially All Disclosures Required by GAAP Are Omitted." If the accountant determines that the disclosure is acceptable, the accountant is not required to issue a report on the financial statements as potential users of the compiled financial statements are put on notice regarding the limitations of the financial statements by the disclosure.

In accordance with the proposed SSARS, the accountant may still report on financial statements that omit substantially all disclosures by including a separate paragraph that explains that the financial statements omit substantially all disclosures required by the applicable financial reporting framework; that if the omitted disclosures were included in the financial statements, that they might influence the user's conclusions about the entity's financial position, results of operations, and cash flows; and that accordingly, the financial statements are not designed for those who are not informed of such matters. ~~However, the proposed SSARS provides additional flexibility for accountants by allowing management to disclose that the financial statements omit substantially all disclosures required by the applicable financial reporting framework within the statement or legend regarding the nonassurance element of the compilation engagement or in the financial statement titles. For example, the statement or legend may read "No CPA provides any assurance on these financial statements. These financial statements omit substantially all disclosures required by accounting principles generally accepted in the United States of America." If management chooses to disclose departures from the applicable financial reporting framework in the title to the financial statements, such title may read "Balance Sheet – Substantially All Disclosures Required by GAAP Are Omitted." If the accountant determines that the disclosure is acceptable, the accountant is not required to issue a report on the financial~~

~~statements as potential users of the compiled financial statements are put on notice regarding the limitations of the financial statements.~~

Specific question to respondents

Q3. The ARSC asks for specific feedback as to whether respondents are supportive of the proposal that would permit the accountant to not report on financial statements that omit substantially all disclosures provided that the financial statements include, within the statement or legend regarding the nonassurance element of the compilation engagement, a statement that the financial statements omit substantially all disclosures.

Reporting

If an accountant's report is ~~required or decided otherwise~~ to be issued, the ARSC proposes that the accountant's compilation report would be reconfigured so as to look significantly different from an audit or review report. The ARSC believes that if the report looks significantly different it would help users in understanding that the accountant has not obtained any assurance and does not provide any assurance on the financial statements.

The ARSC proposes that an accountant would be required to report when:

a. The accountant is engaged, or decides, to report on the financial statements;
b. The accountant has a direct or material indirect financial interest in the entity;
c. The accountant or the accountant's firm:
    i. Performs for a contingent fee any professional services for, or receives such a fee from the entity, or
    ii. Receives a commission or referral fee for services from the entity,

    and the accountant expects, or reasonably might expect, that a third party will use the financial statements that the accountant prepared;
d. The entity's financial statements contain known departures from the applicable financial reporting framework including omission of substantially all disclosures required by the applicable financial reporting framework and such departures are not disclosed in the financial statements; or
e. The entity does not include an indication on each page of the financial statements that ~~a~~ no CPA ~~does not~~ provides any assurance on the financial statements.

It should be noted that while the SSARS would specify when an accountant is required to report, there is nothing in the proposed standard that would preclude the accountant from reporting if he or she decided to do so.

The significant change in the proposed SSARS is that any differentiation between financial statements for general use and financial statements that are not expected to be used by a third party (commonly referred to as management use only financial statements or SSARS 8 financial statements) has been eliminated. Accordingly, the proposed SSARS would potentially extend the nonreporting option that is currently afforded to compilations of financial statements that are not expected to be used by a third party to all compiled financial statements.

~~The proposed reporting requirements differ from the extant reporting requirements for compilation engagements. Paragraph .16 of AR section 80 states that when the accountant is engaged to report on compiled financial statements or submits financial statements that are reasonably expected to be used by a third party, the financial statements should be accompanied by a written report.~~

~~The proposed SSARS also does not differentiate between financial statements that are not expected to be used by a third party (commonly referred to as management use only financial statements or SSARS 8 financial statements) and financial statements that are for general use. The accountant would no longer automatically be required to report on compiled financial statements that are reasonably expected to be used by a third party. In other words, the proposed SSARS would potentially extend the nonreporting option to all compiled financial statements.~~

As stated previously, ~~T~~the proposed SSARS~~, however,~~ would require a report when the financial statements contain known departures from the applicable financial reporting framework and such departures are not disclosed in the financial statements. The disclosure could be in ~~the~~ a notes~~s~~ to the financial statements, in the statement or legend to the financial statements indicating that ~~a~~ no CPA ~~does not~~ provides any assurance on the financial statements, or in the title to the financial statements.

The ARSC also proposes to require a report when the accountant has a direct or material indirect financial interest in the client, as defined by the AICPA Code of Professional Conduct. The accountant would be required to disclose such financial interest in the report. The ARSC believes that such disclosure is in the public interest. Examples of the disclosure the accountant may make include:

- I am (We are) not independent with respect to XYZ Company.
- I (We) have a direct financial interest in XYZ Company.

Finally, the ARSC proposes to require a report when the accountant or the accountant's firm

a. performs for a contingent fee any professional services for, or receives such a fee from the entity, or
b. receives a commission or referral fee for services from the entity,

and the accountant expects, or reasonably might expect, that a third party will use the financial statements that the accountant prepared.

~~The~~ Such requirement ~~is due to~~complies with Rule 302, Contingent fees and Rule 503, Commissions and referral fees, of the AICPA Code of Professional Conduct (paragraph .01 of ET section 302 and paragraph .01 of ET section 503) which require the accountant to disclose the lack of independence in ~~those~~ the circumstances described in those sections.

Specific question to respondents

Q4. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed reporting requirements.

Applicability of the proposed SSARS

The ARSC proposes in paragraph 1 of the proposed SSARS that the standard would address the accountant's responsibilities when the accountant:

a. Is engaged by management to prepare financial statements;
b. Intends to issue or is required by the standard to issue a compilation report; or
c. Agrees to be associated (as defined for the purposes of the standard) with financial statements

In contrast, the extant SSARSs requires an accountant to comply with the provisions of AR section 80, *Compilation of Financial Statements*, whenever the accountant is engaged to report on compiled financial statements or *submits* (defined in paragraph .04 of AR section 60 as presenting to management financial statements that the accountant has prepared) financial statements to a client or to third parties.

The standard would not apply when the accountant issues an audit or review report on financial statements that the accountant has prepared.

Specific question to respondents
Q5. The ARSC asks for specific feedback as to whether respondents are supportive of the revised applicability of the compilation engagement.

Requirement to Obtain a Signed Engagement Letter or Other Suitable Form of Written Communication

Although extant AR section 80 requires that the accountant document the understanding with management regarding the services to be performed for compilation engagements through a written communication with management, extant AR section 80 does not require that the written understanding be signed by either the accountant or management.

Paragraph 11 of the proposed SSARS *Compilation Engagements* requires that the engagement letter or other suitable form of written communication be signed by (*a*) the accountant or the accountant's firm and (*b*) management.

Specific question to respondents
Q6. The ARSC asks for specific feedback as to whether respondents are supportive of the requirement that the engagement letter or other suitable form of written communication be signed by (*a*) the accountant or the accountant's firm and (*b*) management.

Effective Date

The ARSC proposes that the SSARS would be effective for compilations of financial statements for fiscal years (and interim periods within those years) beginning on or after December 15, 2014. Early implementation would be permitted.

This would mean that the standard would not be required to be applied to engagements to compile financial statements for the year ended December 31, 2014. Likewise, it would not be required to be applied to engagements to compile financial statements for the years ended March 31, 2015; June 30, 2015; or September 30, 2015 or any other period that begins prior to December 15, 2014.

The standard would also not be required to be applied to any interim periods with those fiscal years that began prior to December 15, 2014. For example, if an accountant is engaged to compile the financial statements for each of the months ended July 31, 2014 – May 31, 2015 and the annual financial statements for the year ended June 30, 2015 – even though the months ended January – May 31, 2015 all began after December 15, 2014, those compilations may be performed in accordance with extant SSARSs.

The proposed SSARS would be required to be applied for compilations of financial statements for the year ended December 31, 2015.

However, the ARSC has determined that early implementation should be permitted. Therefore accountants can apply the proposed SSARS immediately upon issuance.

The proposed effective date is consistent with the effective date of the revision to Interpretation 101-3 that clarifies that financial statement preparation is a nonattest service. That revision is effective for engagements covering periods beginning on or after December 15, 2014.

Specific question to respondents
Q7. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed effective date including whether early implementation should be permitted.

Guide for Respondents

ARSC is seeking comments on the seven specific questions (Q1-Q7) posed in the Changes From Existing Standards section of this document. Please clearly indicate the question that you are responding to in your comment letter.

Additionally, the ARSC requests comments on specific paragraphs in the proposed SSARS. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for ARSC to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after October 4, 2013, for 1 year. Responses should be sent to Mike Glynn at mglynn@aicpa.org and should be received by October 4, 2013.

Comment Period

The comment period for this exposure draft ends on October 4, 2013.

Accounting and Review Services Committee (ARSC)

(2012–2013)

Michael L. Brand, *Chair*
Joseph S. Beck
Mike Fleming
Jay H. Goldberg
Janice L. Gray
Angie J. Moss
Carl G. Peterson
Thad Scott

ARSC Clarity Task Force

(2012–2013)

Charles J. McElroy, *Chair*
Michael L. Brand

AICPA Staff

Charles E. Landes
Vice President
Professional Standards

Michael P. Glynn
Senior Technical Manager
Audit and Attest Standards
Staff Liaison—Accounting and Review Services Committee

Richard I. Miller
Special Counsel

PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

COMPILATION ENGAGEMENTS

CONTENTS