

PCFRC Reliability Framework Update: *Plus Recently-Issued Technical Literature*

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Topic Coverage

- **Implementing SSARS No. 15**
 - ✓ Eliminating references to SASs in the SSARSs technical literature
- **Implementing SSARS No. 16**
 - ✓ Defining professional requirements in the SSARSs technical literature
- **Implementing SSARS No. 17**
 - ✓ The Omnibus document that addresses a flurry of different issues
- **New Interpretation No. 30 + Revised Interpretation No. 24**
 - ✓ Addressing the country of origin related to GAAP
- **The Reliability Framework**
 - ✓ Results from the Reliability Task Force + ARSC use of a new framework

TOM R. POINT OF EMPHASIS: While the new authoritative literature can result in some practice changes, perhaps the “biggest thing” addressed by ARSC in the last 30 years is the new reliability framework for SSARSs.

Note: Big things this year, and even “bigger and better things” in 2009!

SSARS No. 15:

Eliminating SAS References Within the SSARSs

Note: On Tuesday, July 24, 2007, the ARSC “released” SSARS No. 15 that will be helpful to practitioners in that the guidance “eliminates” all of the references to the SASs within the SSARSs. BTW = Sometimes it is more difficult to work toward “eliminating” things from the literature than it is to “add” things to the literature. SSARS No. 15 = First in new “trilogy” of SSARSs.

Eliminating SAS References In SSARSs Issues Still Exist Where the Guidance is Gone

Examples of SAS Guidance that is Eliminated from the SSARSs:

- SAS No. 1/AU Section 561 = Subsequent discovery of facts issues
- SAS No. 59 = Going concern issues
- SAS No. 62 [Interpretation No. 14] = OCBOA financial statement issues
- SAS No. 85 = Management representation letter issues

Why Eliminate the Guidance = It was not helpful and sometimes it was confusing!

What is the Issue that is Created = “Holes” exist in the technical literature!

Addressing the Issue = SSARS No. 16 + SSARS No. 17 + Additional literature!

TOM R. POINT OF EMPHASIS: Over the years, the ARSC has been asked to provide authoritative guidance related to some frequently-encountered practice issues. Further, the ARSC has become aware that certain cross-references to the auditing standards have not been “helpful” in reaching conclusions [in some cases, more “confusing” than “helpful” related to addressing the issues]. So, with the issuance of SSARS No. 15, the result = Dig holes and then fill the holes!!!

SSARS No. 16 “Terminology” Document: *Defining Professional Requirements*

Note: On Tuesday, December 18, 2007, the ARSC “released” SSARS No. 16 that provides guidance defining professional requirements in compilation and review engagements. This “terminology” document should NOT change the way that practitioners perform and report on these type engagements as long as existing literature has been followed. SSARS No. 16 = Second in new “trilogy” of SSARSs.

Professional Requirements Terminology Meaning Behind the Wording in the SSARSs

Unconditional Requirements: The accountant is required to comply with these type requirements in all cases where the circumstances exist to which the unconditional requirements apply. Within the SSARSs technical literature, an unconditional requirement is indicated by the “must” word or “is required” wording.

Presumptively-Mandatory Requirements: The accountant is required to comply with these type requirements in all cases where the circumstances exist to which the presumptively-mandatory requirements apply. In “rare” circumstances, the accountant may depart from presumptively-mandatory requirements as long as something else can be done [need documentation here] to achieve the objectives of these type requirements. Within the SSARSs technical literature, a presumptively-mandatory requirement is indicated by the “should” word [most things!].

TOM R. POINT OF EMPHASIS: While getting the terminology document “out there” so that it could be used to clarify some things that needed to be clarified in performance of both compilation and review engagements was a key initially, the guidance also will be used by ARSC on a “go-forward” basis and on a “look-back” basis related to the literature in “clarifying” guidance within the SSARSs.

Using the Meaning Within the Wording Examples = Unconditional Requirements

Performing Engagements [Compilations & Reviews] = Practitioners must perform compilation and review engagements in compliance with SSARSs requirements.
Analytical Procedures [Reviews] = There is a requirement to utilize analytical tests in performing review engagements. Importantly, there also is a requirement to do certain things so that the analytics are performed and documented appropriately.
Inquiries of Management/Personnel [Reviews] = There is a requirement to make inquiries in performing review engagements where those inquiries are helpful in supplementing results of analytical procedures in an effort to achieve the limited assurance that is included in the review report [ask questions and get answers].
Management Representation Letters [Reviews] = There is a requirement to obtain written representations from management for all financial statements and periods “covered” by the review report [rep letters are performance requirements too].

TOM R. POINT OF EMPHASIS: In SSARS No. 8 nonreporting [management-use only] compilations, there is a requirement to get an engagement letter in that no report will be issued as a result of the engagement [i.e., no third-party use of the financial statements]. We could not get there using “must” requirement wording!

SSARS No. 17 “Omnibus” Document: *“Flurry” of Different Issues in One Document*

Note: On Wednesday, February 13, 2008, the ARSC “released” SSARS No. 17 that provides a “flurry” of guidance related to compilation/review engagements where the “flurry” of guidance relates to a variety of different issues that are not “connected” [thus the Omnibus!] in any way except that all of the guidance is an “effort” to clarify guidance in compilation and review engagements. BTW = Hard to read outside Codification. SSARS No. 17 = Third in new “trilogy” of SSARSs.

SSARS No. 17: Key Issues

Issued = Wednesday, February 13, 2008.

Effective = Financial statements for periods ending on/after December 15, 2008.

Goal = High-quality compilation and review standards [clarify applicability].

Clarity #1 = Issuer versus nonissuer for consistency with everything else.

Clarity #2 = Objectives and limitations of compilation and review engagements.

Clarity #3 = Some clarification of things that are required in review engagements.

Clarity #4 = The “date” of management representations in review engagements.

Clarity #5 = Those charged with governance versus those involved in management.

Clarity #6 = Responsibilities related to the going concern issue.

Clarity #7 = Responsibilities related to the subsequent events issue.

TOM R. POINT OF EMPHASIS: As a “stand-alone” document, SSARS No. 17 is not an “easy read” for folks [we know that!]. **Key = Read the Codification!** In addition to the guidance noted above, the ARSC included two accounting exhibits related to going concern and subsequent events issues. **No = Not OCBOAs!**

Interpretation Nos. 30 + 24: *One New + One Revised Interpretative Document*

Note: On Wednesday, May 28, 2008, the ARSC “released” new guidance [that includes a revision to previous guidance] related to referencing the country of origin of GAAP [used in the financial statements] as relates to both review and compilation reports. The new guidance is based on the Sunday, May 18, 2008 AICPA Council approval of the IASB as the designated international accounting standards-setter under Rules 202 and 203 of the Code of Professional Conduct!

Revised Interpretation No. 24: Country of Origin = U.S. GAAP

Issue = In September 2003 [revised in May 2008], the ARSC issued some interpretive guidance related to whether practitioners may modify review and compilation reports to reference the country of origin of GAAP.

Resolution Related to the Issue [as Revised] = SSARSs do not require that reports include references to the country of origin of GAAP, but there also is no prohibition to adding this reference to review or compilation reports.

How to Handle the Issue = In review reports, just modify the reference to GAAP in the 3rd paragraph of the standard review report. In compilation reports, the reference would be in an EOM paragraph.

TOM R. POINT OF EMPHASIS: The reason for “different” conclusions related to review and compilation reports is that the standard compilation report does not include a reference to the country of origin of GAAP.

New Interpretation No. 30: Country of Origin = IFRS

Issue = Building on the guidance in the revised Interpretation No. 24, the issue addressed in this interpretive guidance relates to circumstances when GAAP financial statements exist where GAAP is IFRS guidance.

Resolution Related to the Issue = SSARSs guidance can be used in reviewing and compiling financial statements based on IFRS as issued by the IASB.

How to Report Related to IFRS = In review reports, since the wording in the 3rd paragraph includes a GAAP reference, this reference would relate to IFRS as issued by the IASB. In full-disclosure financial statements, an EOM paragraph may be added to the compilation report; when statements do not include disclosures, the additional paragraph related to the omitted disclosures may be modified to reference IFRS as GAAP.

TOM R. POINT OF EMPHASIS: Please be careful with jurisdictional variations of IFRS in that the AICPA Council approved IFRS as adopted by the IASB as international generally accepted accounting principles!

New Interpretation No. 30: What About IAASB Guidance Too?

Issue = Outside the GAAP issue, questions might exist related to whether it is appropriate for U.S. practitioners to perform reviews and compilations utilizing the guidance established by the IAASB in ISRE 2400 [reviews] and ISRS 4410 [compilations] without regard to the basis of accounting that is used in the financial statements [IFRS or U.S. GAAP or OCBOA].
Resolution Related to the Issue = SSARs guidance must be used by U.S. practitioners in reviewing and compiling financial statements, but IAASB guidance also could be followed in these engagements.
Reporting Using Both Sets of Guidance = Reference the IAASB guidance in addition to the SSARs in both review and compilation reports.

TOM R. POINT OF EMPHASIS: The IAASB issue was not addressed by the AICPA Council related to modifying Rules 202 and 203 of the Code.

The Reliability Framework:

Consideration of an Alternative SSARs Framework

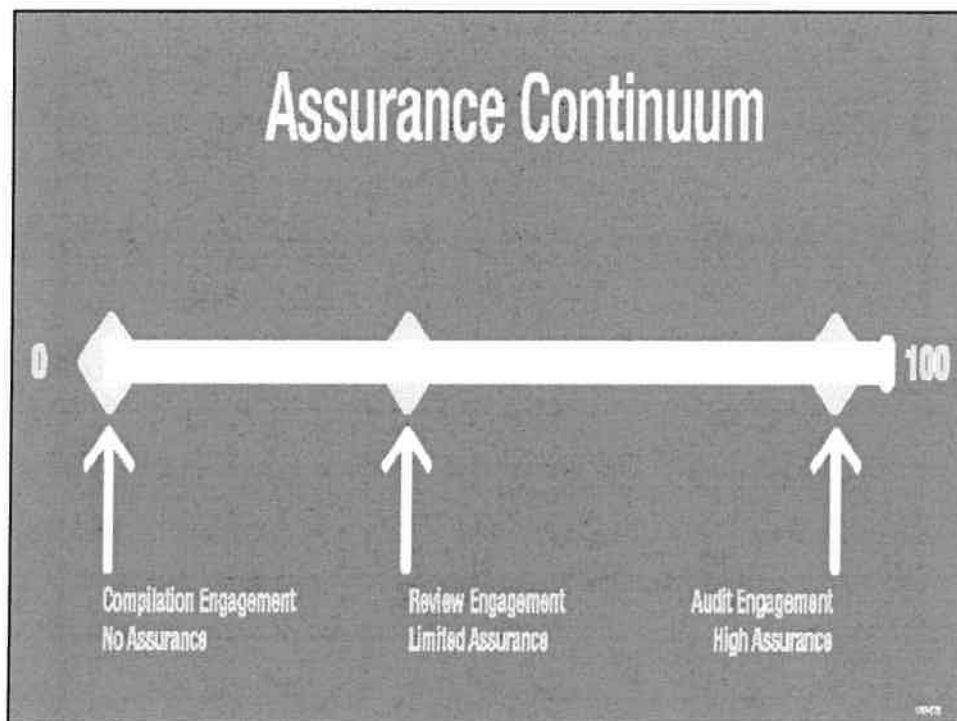
Note: In February 2008, the AICPA Reliability Task Force met with the charge of considering whether there is a need to consider an alternative framework for use in the development of the SSARs technical literature guidance. Based on the recommendations of that Task Force, the ARSC established its own Reliability Task Force, where work has begun related to this issue. Today = Your Update!

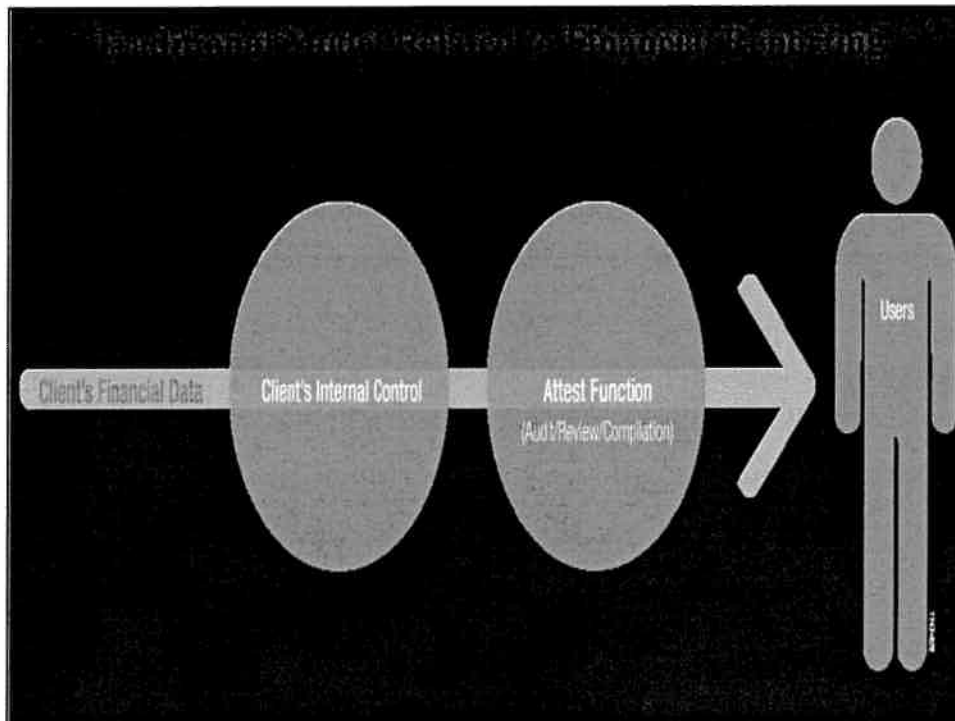
The Reliability Framework: Beginning to Understand Key Changes

Current framework = Practitioners are precluded from performing review engagements when independence has been impaired with respect to the reporting entity [performance requirement], and must modify compilation reports when independence has been impaired with respect to the entity in compilation engagements [reporting requirement].

Proposed framework = The AICPA Reliability Task Force conclusions and recommendations to ARSC relate to the need to consider focusing SSARs requirements on enhancing reliability of financial statements to end-users, rather than focusing on maintaining independence as the cornerstone for performing and reporting for both compilation and review engagements.

TOM R. POINT OF EMPHASIS: The core belief of folks working on this issue is that the focus should be on “getting things right” in the financial statements where both end-users and smaller-business owners would be better served by active involvement of CPAs working with their clients.





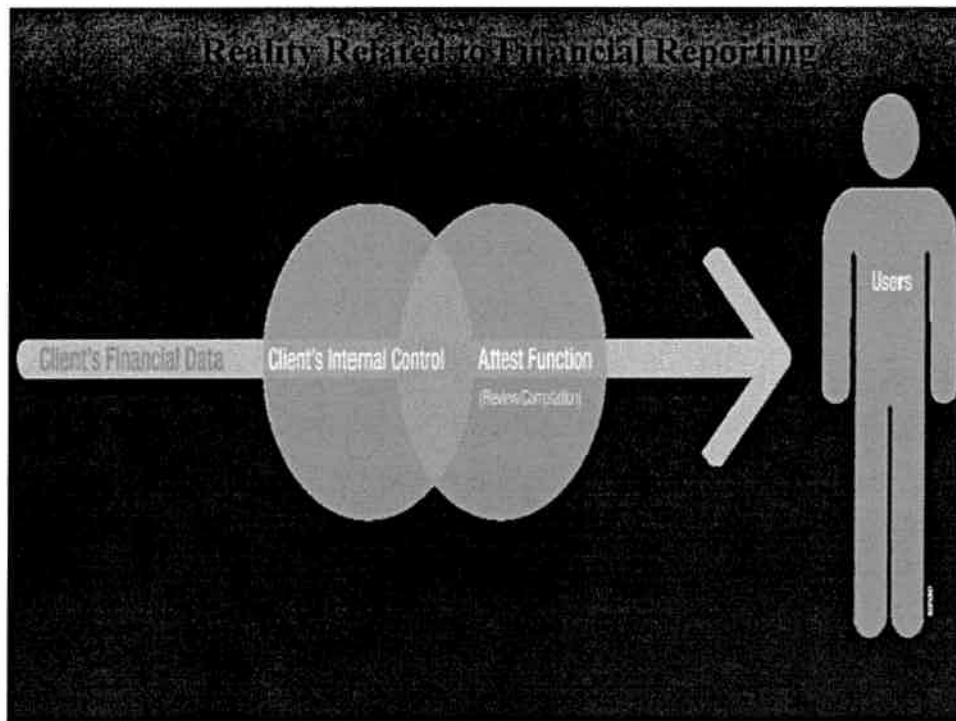
The Reliability Framework: Questions Asked by the Task Force

Question #1 = What can be done to help CPAs serve their smaller-business clients given current requirements [public trust must be maintained]?

Question #2 = Is there any difference in independence impairment caused by scope of services issues when compared to other types of issues?

Question #3 = Related to scope of services independence impairment, could some level of assurance be provided on financial statements as long as the CPA maintains his/her objectivity?

TOM R. POINT OF EMPHASIS: The Task Force considered these [and other] questions in trying to develop recommendations that can be utilized by ARSC in accomplishing its two-fold objectives of protecting the public interest and providing practitioners the guidance they need in order to effectively-perform compilation and review engagements. The questions were addressed within the confines of practical reality that exists in many practice circumstances where CPAs need to help in getting things right!



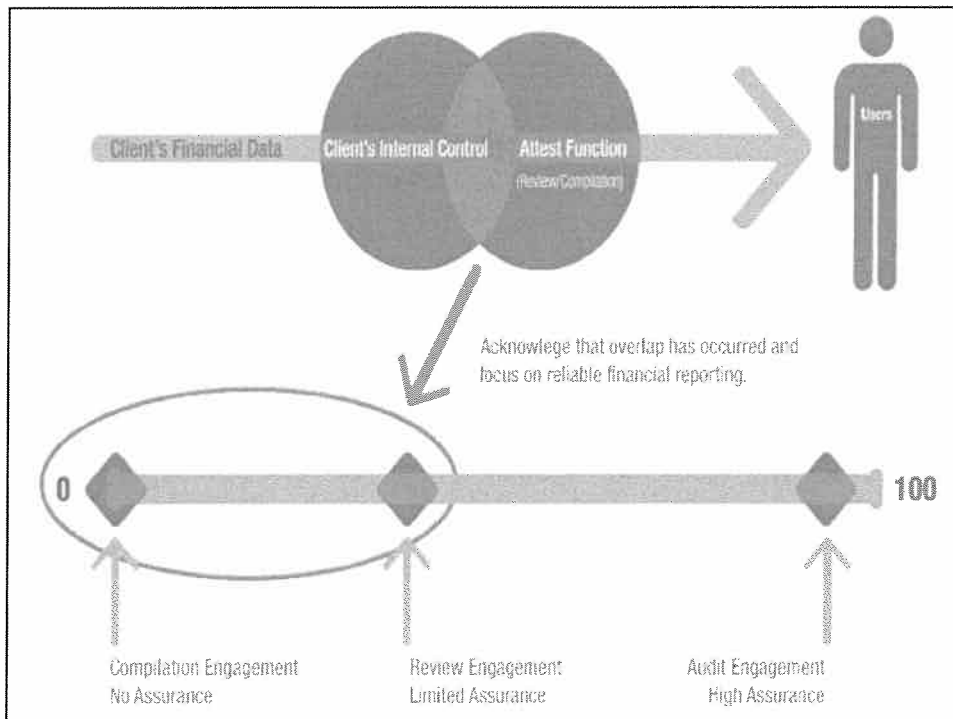
The Reliability Framework: Task Force Recommendations

Recommendation #1 = While maintaining existing compilation and review standards, ARSC should consider enabling a review service where that service currently might be precluded [independence-related issues].

Recommendation #2 = ARSC should continue to preclude any assurance service when independence is impaired by either a financial interest [e.g., ownership] or relationship interest [e.g., immediate family member of CPA in key management position with reporting entity].

Recommendation #3 = There should be full transparency and differential reporting [compared to existing reports] to disclose what services the CPA has performed where the disclosure should be stated in a positive way.

TOM R. POINT OF EMPHASIS: The Task Force clearly-stipulated that performance of certain nonattest services of an internal control nature still should result in the CPA being able to express limited assurance on the financial statements when objectivity is maintained in providing services.



The Reliability Framework: Reliability as the “End-Game”

Fundamental Concept #1 = Integrity must be the foundation [bedrock] for all professional services, without regard to whether they are attest services.

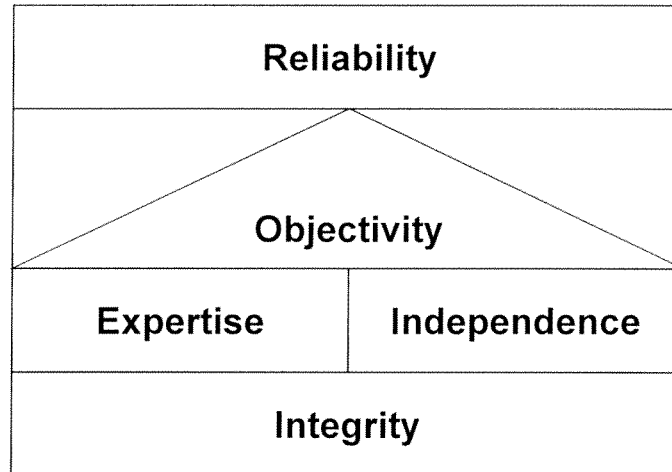
Fundamental Concept #2 = User perceptions likely are different regarding independence-related issues, without regard to what caused the issues.

Fundamental Concept #3 = CPAs who employ integrity, expertise, as well as “levels” of independence can maintain their objectivity.

Fundamental Concept #4 = When objectivity, supported by integrity and expertise, and freedom from financial and relationship interests, continues to be maintained, then a limited level of assurance should be achievable.

TOM R. POINT OF EMPHASIS: While Reliability Task Force members from all stakeholder groups expressed concern about both financial and relationship conflicts that already [currently] impair independence with respect to reporting entities, there also was the opinion that “doing more work” for reporting entities should be viewed as a “positive” thing that is helpful in getting financial statements right [i.e., it is not a “negative”]!!!

Reliability Framework



QUESTIONS

&

ANSWERS