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Proposed statement on standards for Accounting and review services : Defining professional requirements in statements on standards for accounting and review services; Defining professional requirements in statements on standards for accounting and review services; Exposure draft (American Institute of Certified Public Accountants), 2007, Aug. 22

American Institute of Certified Public Accountants. Accounting and Review Services Committee

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EXPOSURE DRAFT

**PROPOSED STATEMENT ON STANDARDS FOR
ACCOUNTING AND REVIEW SERVICES**

***DEFINING PROFESSIONAL REQUIREMENTS IN
STATEMENTS ON STANDARDS FOR ACCOUNTING
AND REVIEW SERVICES***

AUGUST 22, 2007

**Prepared by the Accounting and Review Services Committee
American Institute of Certified Public Accountants**

**Comments should be sent by electronic mail to Michael Glynn at
mglynn@aicpa.org and received by October 25, 2007.**

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August 22, 2007

Accompanying this letter is an exposure draft of a proposed Statement on Standards for Accounting and Review Services (SSARS), *Defining Professional Requirements in Statements on Standards for Accounting and Review Services*. This proposed SSARS defines the terminology the Accounting and Review Services Committee (ARSC) will use to describe the degrees of responsibility that the requirements impose on the accountant. A summary of the significant provisions of the proposed SSARS follows this letter.

Comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the ARSC's consideration of responses, comments should refer to specific paragraphs by number and include supporting reasons for each suggestion or comment.

Written comments will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after November 30, 2007, for one year. Comments should be sent via electronic mail to Michael Glynn at mglynn@aicpa.org and received no later than October 25, 2007.

Sincerely,

Thomas A. Ratcliffe
Chair
Accounting and Review Services Committee

Charles E. Landes
Vice President
Professional Standards

**Accounting and Review Services Committee
(2006–2007)**

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SUMMARY

The attached is an exposure draft of a proposed Statement on Standards for Accounting and Review Services (SSARS) entitled *Defining Professional Requirements in Statements on Standards for Accounting and Review Services*.

WHY ISSUED AND WHAT IT DOES

In serving the public interest, the ARSC aims to set high quality standards for compilation and review engagements for nonissuers¹ that are understandable, clear, and capable of consistent application, thereby serving to enhance the quality and uniformity of practice. In doing so the ARSC seeks to balance the needs of a wide range of users including accountants, management, third-party users of compiled or reviewed financial statements, and the public in general.

In December 2005, the Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 102, *Defining Professional Requirements in Statements on Auditing Standards* (AICPA, *Professional Standards*, vol. 1, AU sec. 120). SAS No. 102 expressly defined imperatives used to describe different degrees of the auditor's responsibility when conducting audit engagements in accordance with generally accepted auditing standards. The ARSC believes that by defining the levels of responsibilities that accountants have in compilation and review engagements in a fashion similar to SAS No. 102, standards for compilation and review engagements will be clarified, and the imperatives used in such standards will be consistent with the standards for audit engagements. The ARSC believes that this clarity and consistency will assist accountants in their work and improve the quality of compilation and review engagements.

This exposure draft introduces a proposed Statement on Standards for Accounting and Review Services (SSARS) entitled *Defining Professional Requirements in Statements on Standards for Accounting and Review Services*. This proposed SSARS defines the terminology the ARSC will use to describe the degrees of responsibility that the requirements impose on the accountant.

The proposed SSARS defines two categories of professional requirements:

- *Unconditional requirements*. The accountant is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the requirement applies. An unconditional requirement is indicated by the words *must* or *is required*.

¹ During the fourth quarter of 2007, the ARSC plans to expose for comment an Omnibus SSARS that will, among other things, conform the SSARSs literature to the literature used by other standard setting bodies, such as the Auditing Standards Board, by replacing the term *nonpublic entity* with *nonissuer*. For the purposes of this proposed statement, the term *nonissuer* is to be considered synonymous with the term *nonpublic entity* as it is currently used in the SSARSs literature.

- *Presumptively mandatory requirements.* The accountant is also required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the requirement applies. The accountant may depart from a presumptively mandatory requirement provided that he or she justifies the departure and how alternative procedure(s) performed in the circumstances were sufficient to achieve the objectives of the requirement. The word *should* indicates a presumptively mandatory requirement.

SSARSs also contain explanatory material that is intended to provide further explanation and guidance on the professional requirements. Such explanatory material is intended to be descriptive rather than imperative. All professional requirements that a SSARS imposes on the accountant will be identifiable by the use of *must*, *is required*, or *should* statements.

The comment period for this exposure draft ends on October 25, 2007.

EFFECTIVE DATE

The proposed SSARS, if issued as a final standard, will be effective upon issuance.

HOW IT AFFECTS EXISTING STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

The provisions of this statement will apply to existing SSARSs. Over the course of the next few years, the ARSC will examine the existing SSARSs and consider whether any additional revisions to the SSARSs are appropriate.

The provisions of this proposed SSARS are not intended to apply to interpretive guidance issued by the ARSC.

The drafting conventions in the proposed SSARS will be applied on a prospective basis to exposure drafts approved for issuance after final approval of this SSARS.

Nothing in this proposed statement amends, revises, or otherwise changes the existing documentation requirements for compilation or review engagements.

PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

DEFINING PROFESSIONAL REQUIREMENTS IN STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

Introduction

.01 This statement sets forth the meaning of certain terms used in Statements on Standards for Accounting and Review Services (SSARSs) issued by the Accounting and Review Services Committee in describing the professional requirements imposed on accountants performing a compilation or review of a nonissuer.

Professional Requirements

.02 SSARSs contain professional requirements, together with related guidance, in the form of explanatory material. Accountants performing a compilation or review of a nonissuer have a responsibility to consider the entire text of a SSARS in carrying out their work on an engagement and in understanding and applying the professional requirements of the relevant SSARSs.

.03 Not every paragraph of a SSARS carries a professional requirement that the accountant is expected to fulfill. Rather, the professional requirements are communicated by the language and the meaning of the words used in the SSARSs.

.04 SSARSs use two categories of professional requirements identified by specific terms to describe the degree of responsibility they impose on accountants. They are as follows:

- *Unconditional requirements.* The accountant is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies. SSARSs use the words *must* or *is required* to indicate an unconditional requirement.
- *Presumptively mandatory requirements.* The accountant is also required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies. The accountant may depart from a presumptively mandatory requirement provided the accountant justifies the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. SSARSs use the word *should* to indicate a presumptively mandatory requirement.

If a SSARS provides that a procedure or action is one that the accountant "should consider," the consideration of the procedure or action is presumptively required, whereas carrying out the procedure or action is not. The professional requirements of a SSARS

are to be understood and applied in the context of the explanatory material that provides guidance for their application.

Explanatory Material

.05 Explanatory material is defined as the text within a SSARS (excluding any related appendixes or interpretations¹) that may:

- Provide further explanation and guidance on the professional requirements, or
- Identify and describe other procedures or actions relating to the activities of the accountant.

.06 Explanatory material that provides further explanation and guidance on the professional requirements is intended to be descriptive rather than imperative.

That is, it explains the objective of the professional requirements (where not otherwise self-evident); it explains why the accountant might consider or employ particular procedures, depending on the circumstances; and it provides additional information for the accountant to consider in exercising professional judgment in performing the engagement.

.07 Explanatory material that identifies and describes other procedures or actions relating to the activities of the accountant is not intended to impose a professional requirement for the accountant to perform the suggested procedures or actions. Rather, these procedures or actions require the accountant's attention and understanding; how and whether the accountant carries out such procedures or actions in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the standard. The words *may*, *might*, and *could* are used to describe these actions and procedures.

Application

.08 The provisions of this section are effective upon issuance.²

¹ Compilation and review interpretations of the SSARSs and certain appendixes represent interpretive publications, which differ from explanatory material. Interpretive publications, as defined in paragraphs .05–.06 of AR section 50 (AICPA, *Professional Standards*, vol.2) reside outside of the standards section of a SSARS and are recommendations on the application of the SSARS in specific circumstances, including engagements for entities in specialized industries. In contrast, explanatory material is always contained within the standards sections of the SSARS and is meant to be more descriptive in nature. Interpretive publications are issued after all members of the ARSC have been provided an opportunity to consider and comment on whether the proposed interpretative publication is consistent with the SSARSs. Interpretative publications consist of compilation and review interpretations of the SSARSs, appendixes to the SSARSs, compilation and review guidance included in *AICPA Audit and Accounting Guides*, and AICPA Statements of Position to the extent that those statements are applicable to compilation and review engagements.

² The specific terms used to define professional requirements in this section are not intended to apply to interpretive publications issued under the authority of the ARSC, since interpretive publications are not SSARSs. (See footnote 1.) It is the ARSC's intention to make conforming changes to the interpretive publications to remove any language that would imply a professional requirement where none exists. It is the ARSC's intention that such language would only be used in the standards sections of the SSARSs.