

1998

Compilation and review alert - 1998/99; Audit risk alerts

American Institute of Certified Public Accountants. Auditing Standards Division

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_indev

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Auditing Standards Division, "Compilation and review alert - 1998/99; Audit risk alerts" (1998). *Industry Developments and Alerts*. 647.
https://egrove.olemiss.edu/aicpa_indev/647

This Article is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Industry Developments and Alerts by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

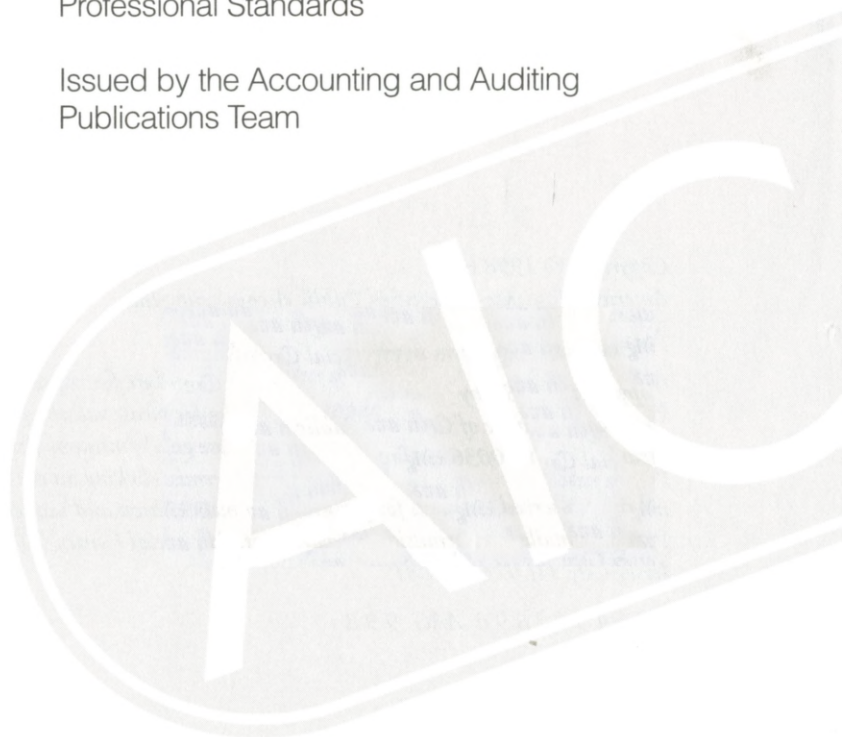


AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Compilation and Review Alert— 1998/99

Update on Practice Developments and
Professional Standards

Issued by the Accounting and Auditing
Publications Team



Notice to Readers

This *Compilation and Review Alert—1998/99* is intended to provide CPAs with an update on recent practice issues and professional standards that affect compilation and review engagements. The document has not been approved, disapproved, or otherwise acted upon by any senior technical committee of the AICPA.

Written by Dan M. Guy, Ph.D., CPA
edited by Terri S. Guy
George Dietz
Senior Manager
Accounting and Auditing Publications

Copyright © 1998 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 call the AICPA Copyright Permission Hotline at 201-938-3245. A Permissions Request Form for emailing is available at www.aicpa.org by clicking on the copyright notice of any page. Otherwise, requests should be written and mailed to the Permissions Department, AICPA, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881.

1 2 3 4 5 6 7 8 9 0 AAG 9 9 8

In This Year's Alert...

- *What's the authority of the Compilation and Review Alert—1998/99?* Page 7
- *What's the current status of the Accounting and Review Services Committee's deliberations on how to clarify the applicability of SSARS No. 1?* Page 7
- *What are the performance standards in a compilation engagement? Is it permissible for paraprofessionals to perform the compilation engagement and to issue the report?* Page 9
- *Can a CPA be required to compile financial statements if he or she was not engaged to do so? When is a review required?* Page 11
- *What working papers are required for a compilation engagement? What working papers are required for a review engagement?* Page 13
- *Are successor accountants required to obtain the working papers of predecessor accountants who compiled, reviewed, or audited the financial statements of the prior year?* Page 14
- *If the prior year's financial statements are audited by a predecessor accountant and the successor accountant proposes to perform a review or compilation under SSARS No. 1, is the successor accountant obligated to communicate with the predecessor?* Page 14
- *What guidance is available to assist with reporting on comparative financial statements when a change of accountants or a change in the level of service has occurred?* Page 15
- *When SSARS No. 1 refers to "knowledge acquired in performing other accounting services," what does the phrase "may result in modification" mean?* Page 16
- *What kinds of analytical procedures does the accountant perform and how should they be applied?* Page 18
- *When should an accountant add a paragraph to a compilation or review report to emphasize a matter about the financial statements?* Page 19
- *Are accountants performing compilation and review engagements required to resolve complex technical and ethical questions through consultation? If consultation is used, should the working papers document the question and conclusion reached?* Page 20

- *Does SAS No. 82, Consideration of Fraud in a Financial Statement Audit apply to compilation and review engagements? Page 21*
- *Does ARSC plan to revise the illustrative review representation letter presented in appendix D of SSARS No. 1 to reflect the issuance of SAS No. 85? Page 22*
- *What responsibility do accountants have for the year 2000 issue in compilation and review engagements? What year 2000 issue accounting guidance is available to help accountants follow GAAP in compiled or reviewed financial statements? Page 23*
- *Are accountants required to consider GAAP disclosures in reporting on compiled or reviewed cash- and income tax-basis financial statements? Page 25*
- *What publications are included in the hierarchy of “must-know” GAAP for accountants performing compilations and reviews? Page 27*
- *What new GAAP pronouncements have been published since October 1997 (publication of last year’s Compilation and Review Alert)? Page 30*
- *How do I obtain AICPA publications related to compilation and review practice? Page 33*
- *What is the best CPE course for getting a basic understanding of SSARS Nos. 1 to 7 or introducing new staff accountants and paraprofessionals to those standards? Page 35*

Table of Contents

COMPILATION AND REVIEW ALERT—1998/99	7
Introduction	7
Current Issues	7
Developments at the ARSC.....	7
The Compilation—A Professional Service.....	9
Required Compilations, Required Reviews.....	11
Working Papers Requirements.....	13
Working Papers of Predecessor Accountants	14
Communications Between Predecessor Accountant and Successor Accountant	14
Reporting on Comparative Financial Statements.....	15
Knowledge Acquired While Performing Accounting Services	16
Applying Analytical Procedures	18
Emphasis Paragraphs	19
Consulting on Complex Technical and Ethical Questions ...	20
A Reminder About Fraud.....	21
Revision of the Review Representation Letter.....	22
The Year 2000 Issue—Time Is Running Out	23
Disclosures in Cash- and Income Tax-Basis Financial Statements—A Reminder.....	25
The GAAP Hierarchy for Compiled and Reviewed Financial Statements	27
Recent GAAP Pronouncements	30
AICPA Services and Publications.....	33
New CPE Course on Compilation and Review.....	35
APPENDIX A—THE INTERNET—AN ACCOUNTANT’S RESEARCH TOOL.....	37
APPENDIX B—TEST YOUR KNOWLEDGE.....	38

Compilation and Review Alert—1998/99

Introduction

What's the authority of the Compilation and Review Alert—1998/99?

The *Compilation and Review Alert—1998/99* is a nonauthoritative practice aid designed to help accountants plan and perform their 1998 and 1999 compilation and review engagements. It clarifies certain existing Statements on Standards for Accounting and Review Services (SSARSs), suggests ways of implementing those standards in special circumstances, points out pitfalls that frequently occur in compilation and review engagements, and addresses emerging practice problems.

Current Issues

Developments at the ARSC

What's the current status of the Accounting and Review Services Committee's deliberations on how to clarify the applicability of SSARS No. 1?

Since 1994, the Accounting and Review Services Committee (ARSC) has been trying to clarify the applicability of SSARS No. 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100), and to make sure that the existing standards square with developments in technology and regulation. To understand where ARSC is today, the following is a summary of the major developments in the history of this project.

- September 1995—ARSC issues an exposure draft of a proposed SSARS entitled “Assembly of Financial Statements for Internal-Use Only” that would have permitted CPAs to prepare financial statements for clients without having to compile them.

-
-
- February and May 1996—ARSC meets to discuss the more than 500 comment letters received on the exposure draft and seeks additional information about the kinds of problems CPAs encounter when performing compilation engagements.
 - August 1997—After extensive discussion and fact-finding, ARSC conducts a two-day public hearing to solicit views on (1) the applicability of SSARS, (2) additional exemptions from SSARS, and (3) the acceptability of plain-paper financial statements (meaning, statements that do not disclose the identity of the CPA who has prepared them). Nineteen speakers participated in the public hearing. There were divergent views on the first two issues listed above; seventeen of the nineteen participants were opposed to plain-paper financial statements.
 - October 1997—ARSC meets to discuss the public hearing, votes to withdraw the assembly exposure draft, and concludes that plain-paper financial statements should not be permitted.
 - February 1998—ARSC concludes that along with a major educational effort, the practice problems emanating from SSARS No. 1 can be best remedied by three exposure drafts that (1) clarify the applicability of SSARS, (2) preclude a CPA from compiling financial statements for a client if the CPA performs controllership services for that client, and (3) exempt financial statements included in written business valuations from the applicability of SSARS.
 - July 1998—ARSC discusses the effect of recent rules enacted by the Florida Legislature to comply with a federal court ruling decreeing that CPAs employed by unlicensed firms (firms such as American Express Tax and Business Services that are not CPA firms) be permitted to hold out as CPAs and be associated with financial statements. The Florida rules enable CPAs working for such firms to be associated with financial statements of their clients. However, Florida rules and the AICPA Bylaws prohibit CPAs in unlicensed firms from compiling financial statements in

accordance with the SSARS. The dilemma can best be summarized as follows.

1. According to the Florida rules, CPAs in nontraditional firms can report on financial statements that they issue to clients or others via an assembly service.
2. Such CPAs cannot compile or report on those financial statements in accordance with the SSARS.
3. CPAs who issue financial statements to clients or others outside of SSARS, as permitted in item 1 in the preceding, are in violation of AICPA rules.

No matter what, something has to change. Because of the complexity and far-reaching consequences of the issues, the ARSC voted to hold in abeyance the three exposure drafts discussed above. Currently, the AICPA Board of Directors is considering alternative solutions to the problem—stay tuned.

The Compilation—A Professional Service

*What are the performance standards in a compilation engagement?
Is it permissible for paraprofessionals to perform the compilation
engagement and issue the report?*

A compilation involves more than merely reading the client's financial statements and attaching a compilation report to those financial statements. And although a compilation report provides no assurance that the financial statements are in conformity with generally accepted accounting principles (GAAP) or another comprehensive basis of accounting (OCBOA), there are performance requirements that must be followed. As a refresher, the following is a summary of the compilation performance requirements. The accountant should do the following.

1. Establish an understanding with the entity about the services to be performed and the report the accountant expects to issue.
2. Have or obtain knowledge of the accounting principles and practices of the entity's industry (GAAP or OCBOA) and a general understanding of the following:

-
-
- a. Nature of the entity's transactions
 - b. Form of its accounting records
 - c. Stated qualifications of its accounting personnel
 - d. Accounting basis on which the financial statements are to be presented and the form and content of those financial statements
3. Consider whether it is necessary to perform other accounting services before compiling the financial statements.
 4. Perform additional work if information supplied by the client appears to be incorrect, incomplete, or otherwise unsatisfactory.
 5. Read the compiled financial statements and consider whether they appear to be appropriate in form and free from obvious material error.

In general, a compilation requires an informal reading of the client's financial statements to determine whether they are in proper form (GAAP or OCBOA) and whether they contain obvious material errors. A staff person or a paraprofessional may perform the compilation, prepare the accountant's report, and submit them to a client provided that they meet the aforementioned performance requirements and provided that the CPA firm retains responsibility for the engagement and the representations in the compilation report. Of course, this would entail appropriate supervision and review of the staff person or paraprofessional performing the compilation procedures. The extent of the supervision and review would vary depending on the experience and knowledge of the person performing the work. Finally, accountants should remember that a compilation is a professional service and, although it is not an assurance engagement, they should always follow the performance and reporting standards in the SSARs.

Required Compilations, Required Reviews

.....
Can a CPA be required to compile financial statements if he or she was not engaged to do so? When is review required?
.....

Required Compilations

The accountant must perform a compilation whenever all of the following conditions are met.

1. Financial statements, including a single financial statement such as a balance sheet or a statement of cash receipts and disbursements are presented.
2. The financial statements are not audited or reviewed.
3. The client is a nonpublic entity, for example, a corporation, a combined group of affiliated entities, a not-for-profit organization, a governmental unit, an estate or trust, a partnership, a proprietorship, a segment of any of these, or an individual.
4. The accountant submits the financial statements to clients or anyone else.

There are four specific exemptions from the general compilation performance and reporting standards. These are as follows:

1. *Certain personal financial statements.* See SSARS No. 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*, (AICPA, *Professional Standards*, vol. 2, AR sec. 600).
2. *Tax returns, including Forms 990 for organizations exempt from income tax, and 5500 for employee benefit plans.* See Interpretation No. 10, "Reporting on Tax Returns," of SSARS No. 1 (AICPA, *Professional Standards*, vol. 2, AR sec. 9100.31-.32).
3. *Certain prescribed forms when designed by the user, not the client.* See SSARS No. 3, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms* (AICPA, *Professional Standards*, vol. 2, AR sec. 300).

-
-
4. *Certain litigation support services that involve pending or potential formal legal or regulatory proceedings before a trier of fact.* See Interpretation No. 20, “Applicability of Statements on Standards for Accounting and Review Services to Litigation Services,” of SSARS No. 1 (AICPA, *Professional Standards*, vol. 2, AR sec. 9100.76-.78).

Notably absent from the preceding exemptions are financial statements included in consulting engagements and so-called plain paper financial statements that are printed without an accountant’s name thereon. Plain paper financial statements are not permitted, and the financial statements included in consulting reports are required to be at least compiled.

Required Reviews

An accountant is required to do a review only when engaged by his or her client to perform a review. Application of analytical procedures or other review-type procedures in a compilation engagement does not obligate the accountant to step up a compilation to a review engagement. For example, in a compilation engagement, if the accountant has concerns about a material account balance and resolves the matter by the application of review-type procedures (or even audit procedures), the accountant is not required to assess whether the expanded work causes the engagement to become a review. The accountant should report based on what the engagement letter or agreement calls for—in this case a compilation, not a review. This dovetails with Interpretation No. 13, “Additional Procedures” of SSARS No. 1, (AICPA, *Professional Standards*, vol. 2, AR sec. 9100.46-.49). Interpretation No. 13 permits the accountant to perform additional procedures in a compilation or review engagement without requiring the accountant to change the level of the engagement. Furthermore, it is consistent with Interpretation No. 3, “Reporting on the Highest Level of Service,” of SSARS No. 1 (AICPA, *Professional Standards*, vol. 2, AR sec. 9100.06-.12). Interpretation No. 3 addresses engagements in which the accountant provides more than one level of service on the same financial statements. Interpretation No. 3 does not preclude the accountant from applying procedures that go beyond a compilation or a review and does not require the accountant to step up the engagement to another level of service.

Working Papers Requirements

What working papers are required for a compilation engagement?

What working papers are required for a review engagement?

Compilation Working Papers

SSARS No. 1 does not require any working papers for a compilation engagement. Nevertheless, accountants may find it helpful from a risk minimization and quality control perspective to include the following items in their client compilation engagement documentation:

1. Engagement letter
2. Trial balance information to bridge the client's records to the compiled financial statements
3. Notes on how incorrect, incomplete, or unsatisfactory matters were resolved, if any
4. If required by firm policy, compilation work program checklist and GAAP disclosure checklist

Review Working Papers

SSARS No. 1, (AR sec. 100.31), states that in a review engagement the accountant should have working papers to describe the following:

1. Matters covered in the accountant's inquiry and analytical procedures such as matters listed in items a through g in AR sec. 100.27 and the inquiries included in appendix A of SSARS No. 1.
2. Unusual matters (incorrect, incomplete, or unsatisfactory information) that the accountant considered and how those matters were resolved.

In addition to these two items, accountants typically include the following in their review working papers:

1. An engagement letter
2. A bridging trial balance (See the preceding section entitled "Compilation Working Papers" above.)

-
-
3. The client's representation letter (SSARS No. 1, AR sec. 100.28, requires that a client provide the accountant with a representation letter in a review engagement.)
 4. If required by firm policy for quality control purposes, a GAAP disclosure checklist, which the accountant might include (Because accountants cannot review financial statements that omit substantially all disclosures, checklists that include disclosure requirements are commonly used in review engagements.)

Working Papers of Predecessor Accountants

Are successor accountants required to obtain the working papers of predecessor accountants who compiled, reviewed, or audited the financial statements of the prior year?

SSARS No. 4, *Communications Between Predecessor and Successor Accountants* (AICPA, *Professional Standards*, vol. 2, AR sec. 400), does not require successor accountants to communicate with or obtain access to working papers of predecessor accountants in accepting compilation or review engagements. Nevertheless, if the successor accountant decides that circumstances justify communicating with the predecessor accountant and also decides that access to the predecessor's working papers may be useful, the successor accountant should inquire about the nature of the working papers before deciding that access would be helpful.

Communications Between Predecessor Accountant and Successor Accountant

If the prior year's financial statements are audited by a predecessor accountant and the successor accountant proposes to perform a review or compilation under SSARS No. 1, is the successor accountant obligated to communicate with the predecessor?

Neither SSARS No. 4 nor SAS No. 84, *Communications Between Predecessor and Successor Auditors* (AICPA, *Professional Standards*, vol. 1, AU sec. 315), applies if the prior year's financial statements are audited by a predecessor accountant and the successor

accountant proposes to perform a review or compilation under SSARS No. 1. Accordingly, the successor accountant is not obligated to communicate with the predecessor. However, the successor accountant may find the guidance in SSARS No. 4 useful in generating information about whether to accept the engagement.

Reporting on Comparative Financial Statements

What guidance is available to assist with reporting on comparative financial statements when a change of accountants or a change in the level of service has occurred?

SSARS No. 2, *Reporting on Comparative Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 200) sets forth the authoritative requirements that obligate the accountant to report on each period when financial statements of two or more periods are presented in columnar form. Reporting is simple unless a change of accountants has occurred, the level of service (compilation or review) differs from period to period, or a change in the nonpublic status of the entity has occurred. In these situations, accountants face some rather complex reporting decisions. Because accountants don't frequently face these complexities, applying SSARS No. 2 can be daunting. A very useful flowchart on page 17 of this Alert can help to make SSARS No. 2 more user friendly. Accountants may consult the flowchart whenever questions about reporting on comparatives arise. All references in the flowchart are to SSARS No. 2. The flowchart covers both predecessor and successor accountants. The flowchart also references the appropriate SAS if the client's comparative financial statements are audited, such as SAS No. 58, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 508), or if the client's status has changed from a nonpublic to a public entity, such as SAS No. 26, *Association With Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 504).¹

1. The flowchart is reproduced with permission from *Guide to Compilation and Review Engagements*, written by Clay, Guy, McMurrian, and McElroy (Fort Worth: Practitioners Publishing Company, 1998).

Here are some definitions from SSARS No. 2 that facilitate the use of the flowchart.

1. *Updated Report*—A continuing accountant issues this kind of report, which considers new information from the current engagement and re-expresses the previous conclusions or expresses different conclusions on the prior period financial statements as of the current report date.
2. *Reissued Report*—Issued subsequent to the date of the original report but bearing the same date as the original report, a reissued report may need to be revised and dual-dated for the effects of specific events.

To demonstrate the use of the flowchart, assume that a successor accountant is performing a review of the current year's financial statements. The prior year's financial statements were reviewed by another accountant. The prior year's financial statements had to be corrected because of an error in applying GAAP. The predecessor accountant has refused to correct and reissue the review report. Using the flowchart on page 17, what course of action should the successor accountant take? The answer is that the successor accountant will have to compile or review the prior year's financial statements, and he or she should not refer to the predecessor accountant in his or her report.

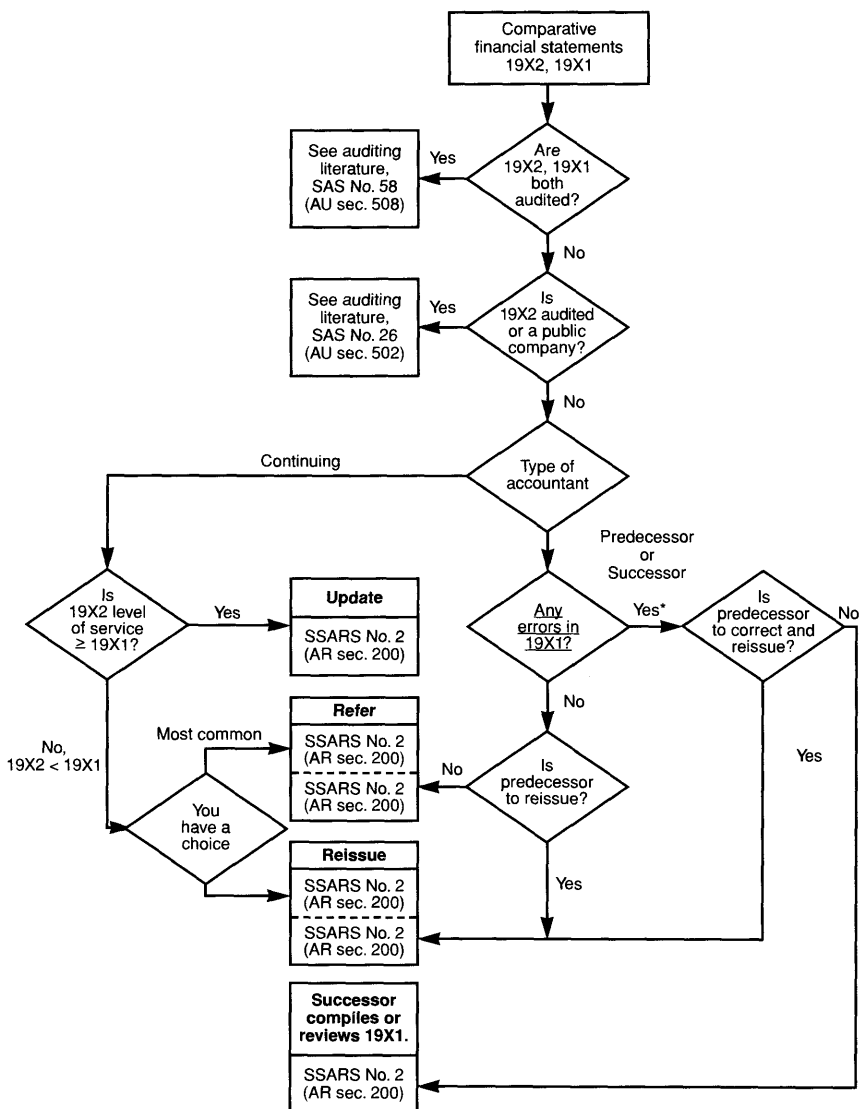
Knowledge Acquired While Performing Accounting Services

When SSARS No. 1 refers to "knowledge acquired in performing other accounting services," what does the phrase "may result in modification" mean?

According to SSARS No. 1 (AR sec. 100.29), knowledge acquired in performing other accounting services (such as providing bookkeeping or data-processing services) may result in the modification of the inquiries and analytical procedures performed in a review engagement. What does "may result in modification" mean?

In a review, the accountant performs inquiries and applies analytical procedures to obtain a reasonable basis for expressing limited

Flowchart of SSARS No. 2 (AR sec. 200)



* SSARS No. 4 (AR sec. 400.10) requires the successor to request the client to notify the predecessor when the successor believes that the prior-period financial statements need to be restated.

assurance on the financial statements. In practice, situations in which the accountant does a pure review are rare. That is, the accountant frequently performs other accounting services and may even compile the client's financial statements prior to performing the review engagement. In those situations, the accountant uses his or her knowledge, gained in the performance of those other services, to modify the inquiries and analytical procedures in areas in which additional evidence is needed to achieve limited assurance. Finally, in situations in which the accountant has compiled the financial statements, Interpretation No. 3 of SSARS No. 1 (AR sec. 9100.06-.12), states that the accountant should only issue the review report—the report appropriate for the highest level of service.

Applying Analytical Procedures

What kinds of analytical procedures does the accountant perform and how should they be applied?

SSARS No. 1 (AR sec. 100.04) states that a review consists of performing inquiry and analytical procedures to provide the accountant with a reasonable basis for expressing limited assurance on the financial statements. What kinds of analytical procedures does the accountant perform and how should those analytical procedures be applied?

SSARS No. 1 (AR sec. 100.27(c)) indicates that analytical procedures consist of the following:

1. Comparison of financial statements with statements for comparable prior period(s)
2. Comparison of the financial statements with budgets and forecasts
3. Study of the relationships of the elements of the financial statements that would be expected to conform to a predictable pattern

Other kinds of analytical procedures may also be used to supplement some of the preceding three types. For example, if available, industry information may be used or relationships to nonfinan-

cial information (for example, sales to square footage of selling space) may be used.

In applying analytical procedures in a review engagement, the accountant may achieve both effectiveness and efficiency by using the following decision approach.

1. Identify immaterial account balances or classes of transactions. Apply no analytical procedures to them if the risk of understatement is low.
2. Identify account balances or classes of transactions in which you have applied significant other accounting services. Consider the evidence that you already have and whether any material errors are likely to remain—do not apply analytical procedures to them.
3. For remaining account balances and classes of transactions, develop expectations (for example, using historical trends adjusted for known changes) for them.
4. Consider how close the existing account balance or class of transactions comes to the expectation developed in item 3. If the results are close, no additional evidence is needed.
5. If the differences are large, material errors could exist. Inquire about valid business reasons for the difference. If results of inquiry are plausible and agree with other evidence, no additional evidence may be needed.
6. If additional evidence is needed, apply other analytical procedures or obtain other suitable evidence.

Emphasis Paragraphs

When should an accountant add a paragraph to a compilation or review report to emphasize a matter about the financial statements?

Footnote 18 of SSARS No. 1 (AR sec. 100) states, “Nothing in this statement...is intended to preclude an accountant from emphasizing in a separate paragraph of his or her report a matter regarding the financial statements.” Footnote 18 permits, but never requires, an emphasis paragraph.

Accountants frequently add voluntary emphasis paragraphs to compilation and review reports to call attention to matters disclosed in notes to the financial statements such as going-concern problems, litigation matters, and related-party transactions.

When an accountant decides to add an emphasis paragraph, the following practice guidelines should be followed:

1. Emphasis paragraphs should not introduce new information about the financial statements; they should only highlight or emphasize a matter disclosed in the financial statements.
2. If the financial statements are deficient or do not contain a needed disclosure and the client does not correct the statements, the accountant is required to state, in a separate paragraph of the report, that the financial statements contain a departure from GAAP or OCBOA. This required paragraph differs from a voluntary emphasis paragraph.
3. Emphasis paragraphs should not contain information about the procedures the accountant has performed or has not performed.
4. Emphasis paragraphs should not contain the accountant's conclusions or opinions.
5. If the accountant decides to add an emphasis paragraph to highlight a going-concern disclosure in the client's financial statements, the term *substantial doubt* should not be used in that paragraph. (Substantial doubt is an audit-evidence-based concept that should only be used in audit reports.)

Consulting on Complex Technical and Ethical Questions

.....
Are accountants performing compilation and review engagements required to resolve complex technical and ethical questions through consultation? If consultation is used, should the working papers document the question and conclusion reached?
.....

SSARS No. 1 (AR sec. 100.10 and 100.25) requires the accountant to possess or obtain a level of knowledge of the accounting principles and practices of the client's industry. Such knowledge may

be obtained, among other ways, by consulting in-firm or outside firm individuals knowledgeable about the industry. Likewise, Statement on Quality Control Standards (SQCS) No. 2, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* (AICPA, *Professional Standards*, vol. 2, QC sec. 20.19) indicates that accounting firms should establish policies and procedures on consulting, on a timely basis, with individuals within or outside the firm, when appropriate for addressing complex, unusual, or unfamiliar issues. Finally, an interpretation of Rule 201 on general standards of the AICPA's *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET 201.02), recognizes that consultation with others may be necessary during the performance of professional services.

A widely used approach that many accountants use when addressing complex technical and ethical questions is to consult with the AICPA's Technical Hotline and the Ethics Hotline (see page 34 for toll free telephone numbers).

Good practice suggests that when consultation takes place and it involves complex technical or ethical questions, it's a good idea to document the following in the compilation or review working papers:

1. Individual(s) consulted
2. Description of question/problem
3. Conclusion reached
4. Firm's position on item 3 above

A Reminder About Fraud

Does SAS No. 82, Consideration of Fraud in a Financial Statement Audit apply to compilation and review engagements?

In February 1997, the ASB issued SAS No. 82, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 316). Because of that standard and renewed emphasis on consideration of fraud in a financial statement audit, accountants frequently raise questions about applying SAS No. 82 in compilation and review engagements.

SAS No. 82 does not apply to compilation and review engagements.² However, Appendix A, “Review of Financial Statements—Illustrative Inquiries” of SSARS No. 1, (AICPA, *Professional Standards*, vol. 2, AR sec. 100.52), indicates that an accountant in designing inquiries may consider the likelihood of misstatement. Compilation and review performance standards do not require an assessment of the risk of fraud. Nevertheless, according to SSARS No. 1, compilation performance standards (AR sec. 100.12) and review performance standards (AR sec. 100.30) do oblige the accountant to obtain additional or revised information when he or she becomes aware of information that is incorrect, incomplete, or otherwise unsatisfactory. The obligation to investigate questionable information emanates from the responsibility established in the *1136 Tenants’ Corp.* case. That is, when suspicion is aroused, the accountant has to pursue the matter.

In *1136 Tenants’*, the courts held the accountant liable to the client, a cooperative apartment corporation, for negligence in failing to detect fraud by the building manager. The court awarded damages of \$174,000, plus interest of \$60,000, less the accountant’s counterclaim of \$1,000. The accountant’s annual fee was \$600. In short, both SSARS No. 1 and the courts require accountants to investigate incorrect, incomplete, or otherwise unsatisfactory information. Don’t put on blinders just because it’s not an audit engagement. Investigate suspicious information and circumstances in all compilation and review engagements.

Revision of the Review Representation Letter

Does the ARSC plan to revise the illustrative review representation letter presented in Appendix D of SSARS No. 1 to reflect the issuance of SAS No. 85?

In November 1997, the ASB issued SAS No. 85, *Management Representation* (AICPA, *Professional Standards*, vol. 1, AU sec. 333),

2. One of the changes introduced by SAS No. 82 is the substitution of the word *fraud* for *irregularities*. As a result of that change, editorial changes were made to the *Codification of Statements on Standards for Accounting and Review Services*, specifically to SSARS No. 1, to replace *irregularities* with *fraud*. In that process, the compilation and review engagement letters presented in appendices to SSARS No. 1 were also changed. The *Codification* issued as of January 1, 1998 reflected those changes (AICPA, *Professional Standard*, vol. 2, AR secs. 100.08, 100.53, and 100.54).

to expand, among other things, the list of specific representations to be obtained that are consistent with current practice and reflect new accounting standards. Does the ARSC plan to revise the illustrative review representation letter presented in Appendix D of SSARS No. 1 (AR sec. 100.55)?

Yes, ARSC has proposed certain updates to the illustrative representation letter to reflect recently issued accounting standards. The revisions will be treated as editorial changes (exposure is not required) to SSARS No. 1 and will become effective upon issuance. The revision should be available by year-end and will be announced in the *CPA Letter*.

The Year 2000 Issue—Time Is Running Out

.....
What responsibility do accountants have for the year 2000 issue in compilation and review engagements? What year 2000 issue accounting guidance is available to help accountants follow GAAP in compiled or reviewed financial statements?
.....

On January 1, 2000, at 12:00 A.M., some computer systems may begin to deliver wrong answers on date calculations. In fact, applications that use future dates may fail before January 1, 2000. The reason is that date calculations for many computer programs use two digits instead of four to represent years, such as 98 instead of 1998, to conserve what once was very expensive computer memory. In these programs, the year 2000 will be represented as 00. Some computer systems may recognize 00 as 1900 and not 2000.

Another problem with many systems is that they have been programmed to recognize the year 99 to mean something other than the date. Thus, those systems may not function or they may produce incorrect information. Finally, another year 2000 problem is that the year 2000 is a leap year and some systems may not recognize the extra day.

Year 2000 problems affect entity information systems that produce financial statements and operating systems such as production, security, and telephone systems. Even if a given client is year 2000 ready, that entity may still be at risk because of supplier, customer, and service entities that are not year 2000 ready. The

year 2000 issue was addressed in last year's *Compilation and Review Alert—1997/98*. It remains the case that accountants have no responsibility when performing compilation and reviews to detect a client's year 2000 problems. Nevertheless, if the accountant becomes aware of financial statement information that is inaccurate, incomplete, or misleading, he or she must obtain revised or additional information without regard to its cause.

To make sure that clients understand that a compilation or review engagement is not designed to detect whether an entity's information system is year 2000 ready, we suggested last year that the following be included in all compilation and review engagement letters.

A compilation (review) of financial statements conducted in accordance with SSARs is not designed to detect whether an entity's information systems are year 2000 ready. However, we may choose to communicate matters that come to our attention relating to the year 2000 issue for the benefit of management.

The AICPA has issued nonauthoritative guidance relating to year 2000, available free of charge on the AICPA's Web site at <http://www.aicpa.org>. This document summarizes the applicable accounting and disclosure guidance, including EITF Issue No. 96-14, *Accounting for the Costs Associated with Modifying Computer Software for the Year 2000*.

EITF No. 96-14 indicates that internal and external costs associated with modifying existing internal-use hardware and software for year 2000 should be expensed as incurred. The costs should not be accrued or capitalized. Nevertheless, costs to replace existing systems with new systems that are year 2000 ready should be capitalized and written off over their estimated useful lives.

If an entity voluntarily includes disclosures (for example, total costs incurred to date, total projected costs, and estimated date of completion) about year 2000 in notes to its financial statements, what responsibility does an accountant have for those items in a compiled or reviewed financial statement? The disclosures ordinarily should not be reviewed because of the difficulty of applying inquiry and analytical procedures to such information. The information could usually be compiled, but an alternative course

of action is to recommend to the client that the information be presented as client-prepared supplementary information that is not compiled or reviewed. Under no circumstances should the disclosure, without regard to its location, state that the entity is year 2000 ready. Given all of the software and hardware applications related to accounting, operations, and compliance, it is very difficult to be certain that all systems are year 2000 ready.

What responsibility does an accountant have for year 2000 matters in a compilation or review engagement that may cause the entity to have going-concern problems? According to Interpretation No. 11, "Reporting on Uncertainties," of SSARS No. 1 (AICPA, *Professional Standards* vol. 2, AR sec. 100.33-. 40), the accountant's responsibility is to review the adequacy of disclosure about the going-concern problems. In evaluating the disclosure, the accountant is obligated to look to the guidance in paragraphs 10 and 11 of SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1, AU sec. 341.10-.11). Year 2000 problems could cause conditions and events of the kind that might cause the entity to have a going-concern problem. The accountant may but is not required to read a June 1998 Auditing Interpretation No. 2 of SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, "Effect of the Year 2000 Issue on the Auditor's Consideration of an Entity's Ability to Continue as a Going Concern," issued by the ASB. The Interpretation provides examples of conditions and events caused by year 2000 (such as, revenue losses due to manufacturing equipment that is not year 2000 ready and year 2000 remediation costs in excess of available resources). These examples may be useful in helping an accountant evaluate going concern disclosures in compiled or reviewed financial statements.

Disclosures in Cash- and Income Tax-Basis Financial Statements— A Reminder

Are accountants required to consider GAAP disclosures in reporting on compiled or reviewed cash- and income tax-basis financial statements?

As discussed in the *Compilation and Review Alert—1997/98*, according to Interpretation No. 14, "Evaluating the Adequacy of

Disclosure in Financial Statements Prepared on the Cash, Modified Cash, or Income Tax-Basis of Accounting” of SAS No. 62, *Special Reports*, (AICPA, *Professional Standards*, vol. 1, AU sec. 9623.88- .93). The Interpretation, issued in January 1998, applies to compiled or reviewed cash- and income tax-basis financial statements. It states that if these financial statements have items for which GAAP would require disclosure, the statements should provide either the disclosure that would be required by GAAP or information that communicates the substance of that disclosure. The bottom line is that accountants have to know GAAP and what GAAP disclosures are to properly compile or review financial statements.

This Interpretation will significantly affect many accountants who believed that accounting standards were developed solely for GAAP financial statements; therefore, GAAP standards do not apply to cash- and tax-basis financial statements. The debate is over. The guidance in SAS No. 62, *Special Reports* (AICPA, *Professional Standards*, vol. 1, AU sec. 623.10) has been clarified by Interpretation No. 14 to clearly state that cash- and tax-basis financial statements are required to have similar disclosure, although qualitative disclosures may be substituted for some quantitative GAAP disclosures. For example, disclosing estimated percentages of total revenues, rather than amounts, may convey the significance of certain related-party transactions. Given this clarification for those accountants who practiced otherwise, the best course of action is to study Interpretation No. 14 and consider the use of disclosure checklists modified when appropriate for cash- and income tax-basis financial statements. The AICPA also has published a new 1998 edition of a nonauthoritative book , *Preparing and Reporting on Cash-and Tax-Basis Financial Statements* (No. 006701 SD). The new edition provides guidance on preparing and reporting on cash-and tax-basis financial statements, example financial statements, disclosures, and other practice aids.

The GAAP Hierarchy for Compiled and Reviewed Financial Statements

What publications are included in the hierarchy of “must-know” GAAP for accountants performing compilations and reviews?

Although there are different reporting and performance standards for compilation, review, and audit engagements, GAAP for compiled and reviewed financial statements are the same as those for audited financial statements. Footnote 3 of SSARS No. 1, (AR sec. 100.14), states that the GAAP hierarchy presented in SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor’s Report* (AICPA, *Professional Standards*, vol. 1, AU sec. 411), is also applicable to compilations and reviews of financial statements performed under SSARSs.

An exception to that rule is found in SSARS No. 1, which permits an accountant to compile financial statements that omit substantially all the disclosures required by GAAP (or OCBOA). If the accountant compiles such financial statements, he or she issues a special compilation report to alert readers to the fact that the disclosures have been omitted. An accountant is not permitted to review financial statements that omit substantially all the disclosures required by GAAP.

Because several standard-setting bodies establish GAAP, there is no single publication that contains all the GAAP pronouncements. Each of the following publications contains certain pronouncements included in the GAAP hierarchy (that is, the “must-know” GAAP).

- *FASB Original Pronouncements—Accounting Standards*, a two-volume set, contains the original text of accounting pronouncements. It includes FASB Statements of Financial Accounting Standards and Interpretations, Accounting Principles Board Opinions, AICPA Accounting Research Bulletins, FASB Technical Bulletins, and AICPA Accounting Interpretations. The pronouncements are arranged chronologically and the text includes a topical index (available from the AICPA).

-
-
- AICPA Technical Practice Aids includes all Statements of Position and Practice Bulletins issued by the AcSEC. This publication also contains a selection of nonauthoritative audit, review, compilation, and accounting questions answered by the AICPA's Technical Information Service (available from the AICPA).
 - FASB Emerging Issues Task Force Abstracts contain a summary of the proceedings of the FASB's EITF. Each abstract summarizes the accounting issues involved and the results of the discussion, including any consensus reached on the issue (available from the FASB).
 - FASB Implementation Guides (Qs and As) are published by the FASB staff and provide guidance, in the form of questions and answers, on the implementation of certain FASB Statements (available from the FASB).
 - Practitioners who compile or review the financial statements of state and local governmental entities should supplement their professional libraries with the *Codification of Governmental Accounting and Financial Reporting Standards*. This text contains current authoritative accounting and financial reporting standards for state and local governmental entities. GASB Statements, Interpretations, and Technical Bulletins are included (available from the GASB).
 - AICPA Audit and Accounting Guides summarize the practices applicable to specific industries and describe accounting principles and audit procedures unique to these industries. The accounting guidance included in AICPA Audit and Accounting Guides is in the GAAP hierarchy as authoritative GAAP. When an accountant compiles or reviews the financial statements of an entity, SSARS No. 1 requires that the accountant have or acquire a level of knowledge of the accounting principles and practices of the industry in which the entity operates. Although the audit guidance included in the Audit and Accounting Guides may not be relevant to practitioners performing compilation and review engagements, the industry background, accounting guidance, and illustrative finan-

cial statements that are provided should help accountants acquire knowledge of a specific industry. The following industry Audit and Accounting Guides are available from the AICPA (product numbers are shown in parentheses):

- Agricultural Producers and Cooperatives (012353)
- Airlines (013182)
- Banks and Savings Institutions (011177)
- Brokers and Dealers in Securities (012180)
- Casinos (013149)
- Certain Nonprofit Organizations³ (013165)
- Colleges and Universities⁴ (013323)
- Common Interest Realty Associations (CIRAs) (This Audit and Accounting Guide contains a chapter on compilations and reviews of CIRAs.) (012487)
- Construction Contractors (012095)
- Credit Unions (012058)
- Employee Benefit Plans (012338)
- Entities With Oil and Gas Producing Activities (012105)
- Federal Government Contractors (012437)
- Finance Companies (012465)
- Health Care Organizations (012438)
- Investment Companies (012362)
- Not-for-Profit Organizations (013391)
- Property and Liability Insurance Companies (011921)
- State and Local Governmental Units (012057)
- Stock Life Insurance Companies (012035)
- Voluntary Health and Welfare Organizations⁵ (012158)

.....
3. Use of these Guides is limited to certain governmental units accounted for under Statements on Governmental Accounting Standards Nos. 15, *Governmental College and University Accounting and Financial Reporting Models* and 29, *The Use of Not-For-Profit Accounting and Financial Reporting Principles by Governmental Entities*.

4. Ibid.

5. Ibid.

The following general Audit and Accounting Guides also may be of interest to CPAs performing compilation and review engagements:

- Personal Financial Statements (011135)
- Use of Real Estate Appraisal Information (013159)

Recent GAAP Pronouncements

What new GAAP pronouncements have been published since October 1997 (publication of last year's Compilation and Review Alert)?

New publications from the FASB include Statements, Technical Bulletins, and Emerging Issue Consensus Positions, which are listed in the following:

- FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, an amendment of FASB Statements No. 87, 88, and 106 (February 1998).
- FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (June 1998).
- FASB Statement No. 134, *Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise*, an amendment of FASB Statement No. 65 (October 1998).
- FASB Technical Bulletin No. 97-1, *Accounting Under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option* (December 1997).

EITF Consensus Positions

<i>EITF Issue No.</i>	<i>Description</i>	<i>Date of Consensus/Status</i>
96-19	<i>Debtor's Accounting for a Substantive Modification and Exchange of Debt Instruments</i>	Implementation guidelines added July 23, 1998
97-2	<i>Application of APB 16 and SFAS 94 to physician's practice entities</i>	Consensus reached November 20, 1997

<i>EITF Issue No.</i>	<i>Description</i>	<i>Date of Consensus/Status</i>
97-5	<i>Accounting for the Delayed Receipt of Option Shares Upon Exercise Under APB Opinion No. 25, Accounting for Stock Issued to Employees</i>	FASB Staff Announcement July 23-24, 1997
97-8	<i>Accounting for Contingent Consideration Issued in a Purchase Business Combination</i>	Consensus reached July, 1997
97-9	<i>Effect on Pooling-of-Interests Accounting of Certain Contingently Exercisable Options or Other Equity Instruments</i>	Consensus reached September 18, 1997
97-10	<i>The Effect of Lessee Involvement in Asset Construction</i>	Consensus reached May 21, 1998. (Changes made to consensus July 23, 1998)
97-11	<i>Accounting for Internal Costs Relating to Real Estate Property Acquisitions</i>	Consensus reached March 18, 1998
97-12	<i>Accounting for Increased Share Authorization in an IRS Section 423 Employee Stock Purchase Plan under APB Opinion No. 25, Accounting for Stock Issued to Employees</i>	Consensus reached September 18, 1997
97-13	<i>Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation</i>	Consensus reached November 20, 1997
97-14	<i>Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested</i>	Consensus reached May 21, 1998; Consensus reached on transition July 23, 1998.
97-15	<i>Accounting for Contingency Arrangements Based on Security Prices in a Purchase Business Combination</i>	Consensus reached March 18-19, 1998
98-1	<i>Valuation of Debt Assumed in a Purchase Business Combination</i>	Consensus reached March 18-19, 1998
98-2	<i>Accounting by a Subsidiary for an Investment in Its Parent Company's Stock</i>	No consensus reached. Further discussion expected.
98-3	<i>Determining Whether a Transaction Is an Exchange of Similar Productive Assets or a Business Combination</i>	Further discussion planned March 18-19, 1998.

(continued)

<i>EITF Issue No.</i>	<i>Description</i>	<i>Date of Consensus/Status</i>
98-4	<i>Accounting by a Joint Venture for Businesses Received at Its Formation</i>	Further discussion planned March 18-19, 1998.
98-5	<i>Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios</i>	September 23-24, 1998 discussed but not asked to reach a consensus. Further discussion planned.
98-6	<i>Investor's Accounting For an Investment in a Limited Partnership Investment When The Investor Is The General Partner and the Limited Partners Have Certain Approval Or Veto Rights</i>	September 23-24, 1998. Further discussion planned.
98-7	<i>Accounting for Exchanges of Similar Equity Method Investments</i>	Consensus reached May 21, 1998.
98-8	<i>Accounting for Transfers of Investments that Are in Substance Real Estate</i>	Consensus reached May 21, 1998.
98-9	<i>Accounting for Contingent Rent in Interim Financial Periods</i>	September 23-24, 1998. Prior consensus on lessee accounting withdrawn, new consensus reached. Further discussion planned.
98-10	<i>Accounting for Energy Trading and Risk Management Activities</i>	September 23-24, 1998. Further discussion planned.
98-11	<i>Accounting For Acquired Temporary Differences In Certain Purchase Transactions That Are Not Accounted For As Business Combinations</i>	Consensus reached on one issue September 23, 1998. Further discussion planned.
98-12	<i>Application of EITF Issue No. 96-13, "Accounting For Derivative Financial Instruments Indexed To, and Potentially Settled In, A Company's Own Stock, To Certain Derivative Financial Instruments Issued with Other Instruments.</i>	September 23-24, 1998. Further discussion planned.
98-13	<i>Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee</i>	September 23-24, 1998. Further discussion planned.
98-14	<i>Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements</i>	September 23-24, 1998. Further discussion planned.

New Statements of Position from the AICPA:⁶

- SOP 97-2, *Software Revenue Recognition* (October 1997).
- SOP 97-3, *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments* (December 1997).
- SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (March 1998).
- SOP 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising* (March 1998).
- SOP 98-4, *Deferral of the Effective Date of a Provision of SOP 97-2, "Software Revenue Recognition"* (March 1998).
- SOP 98-5, *Reporting on the Costs of Start-Up Activities* (April 1998).
- SOP 98-7, *Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk*

AICPA Services and Publications

How do I obtain AICPA publications related to my compilation and review practice?

To order AICPA products, call (800) 777-7077 (menu selection #1); write AICPA Order Department, CLA 10, P.O. Box 2209, Jersey City, NJ 07303-2209; fax (800) 362-5066. Prices do not include shipping and handling. The best times to call are 8:30 to 11:30 A.M. and 2:00 to 7:30 P.M., EST. Obtaining product information and placing online orders can be done at the AICPA's Web site <http://www.aicpa.org>.

6. SOP 98-3, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*, 98-6, *Reporting on Management's Assessment Pursuant to the Life Insurance Ethical Market Conduct Program of the Insurance Marketplace Standards Association*, and 98-8, *Engagements to Perform Year 2000 Agreed-Upon Procedures Attestation Engagements Pursuant to Rule 17-a5 of the Securities Exchange Act of 1933, Rule 17Ad-18 of the Securities Exchange Act of 1934, Advisories No. 17-98 and No. 40-98 of the Commodity Futures Trading Commission*, are auditing pronouncements and are excluded.

Who do you consult with at the AICPA if you have a complex technical or ethics question related to compilation or review practice?

- Accounting and Auditing Technical Hotline. The AICPA Technical Hotline answers members' inquiries about compilation and review services. Call (800) 777-7077.
- Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. Call (800) 777-7077.

What's a good way to stay current on developments in the compilation and review arena? The AICPA has a home page on the World Wide Web. "AICPA Online," the Web site (URL or uniform resource locator: <http://www.aicpa.org>), offers CPAs the unique opportunity to stay abreast of developments in compilation, review, and accounting. The home page is updated daily. The Web site includes "In Our Opinion," the newsletter of the AICPA Audit and Attest Standards Team. The newsletter includes information on technical activities and developments in compilation and review matters. The Web site also includes highlights of ARSC meetings.

What's a good source for keeping up with authoritative pronouncements that affect compilation and review engagements? Practitioners Publishing Company (PPC) and the AICPA currently offer a CD-ROM disk, *The Practitioner's Library—Accounting and Auditing*. Publications issued by PPC, the AICPA, and the FASB are included in *The Practitioner's Library*. The disk contains the following publications issued by the FASB: *Original Pronouncements*, *Current Text*, *Emerging Issues Task Force Abstracts*, and *FASB Implementation Guides*; and the following publications issued by the AICPA: *Professional Standards* (which includes all of the SSARs and their interpretations), *Technical Practice Aids*, *Audit and Accounting Guides*, and a peer review program manual, *A Roadmap of the Peer Review Process: Getting the Most Value From Your Peer Review*. The disk also contains eighteen PPC engagement manuals. The disk may be customized so that purchasers pay for and receive only selected segments of the material. For more information about this product call (800) 323-8724.

Are there other AICPA publications that cover compilation and review engagements that may be useful? The following AICPA publications include guidance relevant to compilation and review engagements (product numbers are shown in parentheses):

- *Audit and Accounting Manual* (007258)—The manual is designed to provide assistance for audit, review, and compilation engagements. It contains numerous practice aids, samples, and illustrations.
- *Financial Statement Preparation Manual/Disclosure Checklists* (G01027JK)—The manual is a loose-leaf service of nineteen disclosure checklists and sample financial statements for various industries that is updated quarterly to reflect the issuance of new authoritative guidance. The checklists are the individual paperback versions that are generated from the loose-leaf and published annually.

New CPE Course on Compilation and Review

What is the best CPE course for getting a basic understanding of SSARS Nos. 1 to 7 or introducing new staff accountants and paraprofessionals to those standards?

During the four years of extensive discussions, debates, comment letters, and public hearings about the assembly exposure draft and the applicability of the SSARS (see the second section of this Compilation and Review Alert), one item emerged that everyone agreed on—the need for additional education about compilation and review standards.

Quite frankly, a number of individuals writing comment letters or participating in the discussions and debates on the assembly exposure draft demonstrated a significant misunderstanding about the fundamental requirements of the existing standards—what's required and what's not. Consequently, one of the things that the AICPA promised to do was to develop a new CPE course for self-study and for group study on the compilation and review standards. That has been done and the course is in production. Starting with the 1999 CPE year, the AICPA will be offering a

new *Introduction to Compilation and Review Engagements*, written by Dan M. Guy, the former Vice President at the Institute in charge of compilation and review standards.

The *Compilation and Review Alert—1998/99* is published annually. As you encounter problems in performing compilation and review engagements, please share those with us so that next year's *Compilation and Review Alert* will be even better. You may email these comments to dmguy@worldnet.att.net or write to:

Dan M. Guy, Ph.D., CPA
314 Paseo de Peralta
Santa Fe, NM 87501

APPENDIX A

The Internet—An Accountant's Research Tool

Here is a listing of some useful Web sites that may provide valuable information to accountants doing compilations and reviews.

<i>Name of Site</i>	<i>Content</i>	<i>Internet Address</i>
American Institute of CPAs	Summaries of recent developments at the ARSC and other professional standard-setting committees and other AICPA activities	http://www.aicpa.org
Financial Accounting Standards Board	Summaries of recent accounting pronouncements and other FASB activities	http://www.fasb.org
Governmental Accounting Standards Board	Summaries of recent accounting pronouncements and other GASB activities	http://www.gasb.org
CPAnet	Links to other Web sites of interest to CPAs	http://www.cpalinks.com
Accountants Home Page	Resources for accountants and financial and business	http://www.computercpa.com

APPENDIX B

Test Your Knowledge

For the questions and statements shown below, indicate whether the statement is true or false or select the correct answer for multiple choice questions.

- _____ 1. SSARS No. 1 permits a paraprofessional to perform the compilation engagement, but the paraprofessional should not issue the compilation report.
- _____ 2. Which of the following is not a specific exemption from certain aspects of SSARS No. 1?
 - a. Litigation support services
 - b. Tax returns
 - c. Financial statements in a consulting engagement
 - d. Certain prescribed forms
- _____ 3. An accountant is required to do a review only when engaged to do so.
- _____ 4. Although working papers are not required in a compilation engagement, which of the following items would least likely be included in compilation engagement working papers?
 - a. Representation letter
 - b. Engagement letter
 - c. Resolution of questionable items
 - d. Bridging trial balance
- _____ 5. GAAP disclosure checklists are more commonly used in compilation engagements than in review engagements.
- _____ 6. A successor accountant is required to communicate with the predecessor accountant before accepting an engagement to review the current year's financial statements.

-
-
- _____ 7. A continuing accountant is required to update his or her report on comparative financial statements (years 1998/1999).
 - _____ 8. An accountant who performs bookkeeping services for a client followed by a review engagement cannot consider evidence generated from the bookkeeping work as evidence to support the review report.
 - _____ 9. If a client has a going-concern problem, the accountant's compilation or review report must call attention to the problem by the addition of an emphasis paragraph.
 - _____ 10. SSARS No. 1, under certain circumstances requires consultation to resolve complex and material technical issues.
 - _____ 11. SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*, does not apply to compilation or review engagements.
 - _____ 12. An accountant has a responsibility to detect a client's Y2K problem in a review engagement, but not a compilation engagement.
 - _____ 13. In preparing modified cash financial statements that are compiled, the accountant should be familiar with and consider GAAP disclosures where applicable.
 - _____ 14. The GAAP hierarchy for compiled and reviewed financial statements is the same as for audited financial statements.
 - _____ 15. An AICPA audit and accounting guide addressing a specialized industry may be useful to an accountant compiling or reviewing financial statements in that industry but is not part of the GAAP hierarchy.

Answers to Test Your Knowledge:

1. False, the paraprofessional may also issue the report. 2. c 3. True 4. a 5. False 6. False 7. True 8. False 9. False, the accountant may elect to do so. 10. False 11. True 12. False 13. True 14. True 15. False

