

SSARS 23: What are the Changes and How Does It Affect Prospective Financial Information Engagements (e.g. Kansas Budget Reports for Municipalities)

There have been inconsistencies in practice as it relates to the preparation of budget reports that accountants are preparing for Kansas Municipalities and the applicability of the SSARS. The purpose of this document is to provide clarity around when the SSARS applies to this type of engagement.

AICPA's Accounting and Review Services Committee (ARSC) expanded the subject matter to which the Statements on Standards for Accounting and Review Services (SSARSs) apply. SSARS No. 23 amended AR-C section 60, General Principles for Engagements Performed in Accordance with Statements on Accounting and Review Services; AR-C section 70, Preparation of Financial Statements; AR-C section 80, Compilation Engagements; and AR-C section 90, Review of Financial Statements (AICPA, Professional Standards).

The most significant amendments resulting is that preparation and compilation of prospective financial information are now covered by AR-C sections 70 and 80, respectively. These amendments to AR-C Sections 70 and 80 with respect to prospective financial information are effective for prospective financial information prepared on or after May 1, 2017, and for compilation reports dated on or after May 1, 2017, respectively. Accountants need to consider the type of engagement the client has requested and use professional judgment to determine when SSARS applies. An understanding with the client as to what the engagement entails is important.

Q1. What are the changes due to SSARS 23, and how does it affect engagement with prospective financial information?

A1. The SSARS are revised so that the accountant can *prepare or compile prospective financial information*. The changes are reflected in AR-C 60, AR-C 70, and AR-C 80. The engagement determination is driven by what the accountant is engaged to do rather than "submission" of prospective financial information to third parties.

- Preparation Standard (AR-C 70) Highlights

- Engagement letter is required
- Disclosure of the summary of significant assumptions is required.
- An identification of the hypothetical assumptions or a description of the limitations on the usefulness of the presentation is required.
- A legend is required (see Q3)

- Compilation Standard (AR-C 80) Highlights

- Engagement letter is required
- Expands applicability to prospective financial information and includes certain requirements as outlined in AR-C 80

Disclaimer: These Q&As are based on guidance from the AICPA. These Q&As are not rules or interpretations of the AICPA's Accounting & Review Services Committee and, therefore, are not authoritative guidance. Refer to SSARS No. 23, *Omnibus Statement on Standards for Accounting and Review Services—2016* and the AICPA's *Guide to Prospective Financial Information for authoritative information*.

Q2. How does an accountant know when the preparation standard or compilation standard applies to the prospective financial information engagement?

A2. The type of engagement is driven by what the client engages (hires) the accountant to do. An engagement letter is required to clarify the nature of an engagement and makes clear whether the SSARS applies.

- Considerations

- Accountants can talk with their client and understand what the client expects and needs.
Does the client need the accountant to prepare the prospective financial information?
Does the client need the accountant to only provide accounting assistance (e.g. advising or preparing certain calculations)?
Does the client, or the user of the prospective financial information need the accountant to report on the compiled financial information?
- If the client engages the accountant to merely provide accounting and financial reporting expertise to assist management as management works to prepare the information, and the client understands the accountant will not prepare the prospective financial information, the engagement is not subject to the SSARS. “Merely assisting” is a situation where the accountant does not need to exercise a huge amount of judgment and where the accountant is only *part of* the preparation process.
- If the client engaged the accountant to *prepare* prospective financial information, then, AR-C 70 applies.
- If the client engages the accountant to report on the compiled financial information and consider whether the prospective financial information appears to be appropriate in form and free from obvious material misstatements, then, AR-C 80 applies.

Q3. How does an engagement to assist, prepare or compile prospective financial information differ regarding a report and independence?

A3. A preparation engagement does not require a report. However, all preparation engagements require a legend on each page of the prospective financial information indicating, at a minimum, that “no assurance is provided”. Further, the accountant does not need to consider independence for a preparation engagement. A report is required for a compilation engagement and the accountant is required to determine independence.

Q4. Are preparation engagements subject to peer review?

A4. In KS, firms that only perform preparation engagements are not required to enroll in a PRP. Firms should contact the state boards of accountancy for the states in which they practice for information. For firms enrolled in a PRP due to the performance of other types of engagements, preparation engagements may be included in the scope of peer review.

Q5. AR-C 70 (Preparation) states it does not apply when an accountant prepares financial information “solely for submission to taxing authorities”; Does the accountant’s preparation of the KS Municipal Budget Reports fall under this exclusion?

A5. No. The “solely for submission to taxing authorities” should be considered on a very narrow scope. Its intention is simply to scope out tax services (so, if a tax accountant prepared financial information for purposes of the tax return, they would not be in SSARSs).