

SSARS 10: CHECK YOUR MALPRACTICE INSURANCE

Harry Cendrowski, Lawrence R. Donaldson

and James Martin

The AICPA recently released a Statement on Standards for Accounting and Review Services #10, (SSARS 10) that will revise SSARS 1 (Compilation and Review of Financial Statements) to expand previous guidance on analytical procedures, inquiries and other review procedures. The requirements included in this new standard will be effective for reviews of financial statements for periods ending on or after December 15, 2004. SSARS 10, with a tip of the hat to SAS 99, revises SSARS 1 to provide inquiries regarding fraud in a review engagement. The additional guidance on analytical procedures, inquiries, and other review procedures should help the accountant improve the review product. However, the guidance for inquiries regarding fraud in a review engagement opens a Pandora's Box of issues, pitfalls, and risks for the accountant. Under the new standard, accountants performing review engagements will need to identify fraud indicators in different business processes, understand the potential impacts of that fraud on the financial statements, and be able to identify additional inquiries or analytical procedures required based on the potential for fraud within the organization. In short, the accountant will need to develop a fraud aware-

ness and deterrence mindset in order to manage the risk associated with the performance of a review engagement.

The New Standard

The standard reiterates that a Review Engagement "does not contemplate obtaining an understanding of internal control or assessing control risk" (AR 100.25), however, the accountant must "obtain a basis for communicating whether he or she is aware of any material modifications that should be made to the financial statements for them to be in conformity with generally accepted accounting principles. The specific inquiries made and the analytical and other procedures performed should be tailored to the engagement based on the accountant's knowledge of the entity's business." (AR 100.24) This basis for communication will now include specific inquiries around the existence of fraud within the organization, and inquiries regarding specific internal control procedures within the business processes. The management representation letter will now include acknowledgement of management's responsibilities to prevent and detect fraud (AR 100.32 c), and disclosure of any

Harry Cendrowski, CPA, CFE, CVA, CFD, is Managing Director of Cendrowski Corporate Advisors, in Bloomfield Hills, Michigan.

Lawrence R. Donaldson, Esq. has focused his practice in the areas of legal and accounting malpractice for most of his career, and is a member of Plunkett & Cooney. Mr. Donaldson sits on the Michigan state board of accountancy.

James Martin, CMA, CIA, CFD is a Senior Manager at Cendrowski Corporate Advisors, in Bloomfield Hills, Michigan.