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Fraud Concerns Becoming Part of Review Engagements

New York (July 29, 2004) -- The American Institute of CPAs, through its Accounting and Review Services Committee, has issued Statement on Standards for Accounting and Review Services No. 10, Performance of Review Engagements, amending SSARS No. 1, Compilation and Review of Financial Statements.

The most significant changes revolve around required specific inquiries regarding fraud in a review engagement, and references to fraud in the management representation letter.

Harry Cendrowski, managing director of Bloomfield Hills, Mich.-based Cendrowski Corporate Advisors, which specializes in fraud deterrence and detection, says, "Under the new standard, accountants will need to develop a fraud awareness and deterrence mindset in order to manage the risk associated with the performance of a review engagement."

Cendrowski adds, "Although SAS 99 defines the auditor's responsibilities for communicating with company management and ownership about fraud risks, this is not included in SSARS 10. However, it is certainly a practice that should be considered by the accountant, and one that I strongly recommended."

With regard to fraud, the new statement indicates that an inquiry to members of management who have responsibility for financial and accounting matters should be considered. That involves "their knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, for example, communications received from employees, former employees or others."

As to management-written representations in connection with a review of financial statement prepared in accordance with generally accepted accounting principles, specific representations should relate to:


- Management's acknowledgement of its responsibility to prevent and detect fraud.
- Knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, including any communications received from employees, former employees or others.

The new statement also expands on previous guidance on analytical procedures, inquiries and other review procedures, as well as providing new guidance regarding workpaper documentation in a review engagement. Appendix B, Review of Financial Statements -- Illustrative Inquiries, was substantially modified, and Appendix H, Analytical Procedures the Accountant May Consider Performing When Conducting a Review of Financial Statements, is added. The new standard is effective for reviews of financial statements ending on or after Dec. 15, 2004.

-- Howard W. Wolosky





July 2004


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