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## AICPA Professional Standards: Accounting and Review Standards as of June 1, 1997

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

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**AICPA**

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

# ***AICPA Professional Standards***

## ***Volume 2***

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**Accounting & Review Services**

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**Code of Professional Conduct**

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**Bylaws**

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**International Accounting**

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**International Auditing**

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**Consulting Services**

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**Quality Control**

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**Peer Review**

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**Tax Practice**

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**Personal Financial Planning**

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**Continuing Professional Education**

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**As of June 1, 1997**

## AR Section

# STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

*Statements on Standards for Accounting and Review Services are issued by the AICPA Accounting and Review Services Committee, the senior technical committee of the Institute designated to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of a nonpublic entity. Council has designated the AICPA Accounting and Review Services Committee as a body to establish technical standards under Rule 202 of the Institute's Code of Professional Conduct.*

*The staff of the Accounting and Review Services Committee has been authorized to issue interpretations to provide timely guidance on the application of pronouncements of the Accounting and Review Services Committee. Interpretations are reviewed by members of that committee. An interpretation is not as authoritative as a pronouncement of the Accounting and Review Services Committee, but members should be aware that they may have to justify a departure from an interpretation if the quality of their work is questioned.*

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## AR Section 100

# Compilation and Review of Financial Statements

Issue date, unless  
otherwise indicated:  
December, 1978

.01 This statement defines the *compilation of financial statements* and the *review of financial statements* of a nonpublic entity and provides guidance to accountants concerning the standards and procedures applicable to such engagements.<sup>1</sup> The accountant is required to issue a report whenever he completes a compilation or review of the financial statements of a nonpublic entity in compliance with the provisions of this statement. The accountant should not issue any report on the unaudited financial statements of a nonpublic entity or submit such financial statements to his client or others unless he complies with the provisions of this statement.

.02 The statement recognizes that accountants may perform other accounting services either in connection with the compilation or review of financial statements or as a separate service. The statement distinguishes such services from a compilation and from a review. The statement does not establish standards or procedures for such other accounting services, examples of which follow:

- a. Preparing a working trial balance.
- b. Assisting in adjusting the books of account.
- c. Consulting on accounting, tax, and similar matters.
- d. Preparing tax returns.
- e. Providing various manual or automated bookkeeping or data processing services unless the output is in the form of financial statements.
- f. Processing financial data for clients of other accounting firms.

## General

.03 This statement provides guidance considered necessary to enable the accountant to comply with the general standards of the profession set forth in rule 201 [ET section 201.01] of the AICPA Code of Professional Conduct (see Appendix E) in the context of a compilation engagement or a review engagement and establishes additional standards deemed appropriate for such engagements.

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<sup>1</sup> Statements on Auditing Standards (SASs) provide guidance to the accountant who performs services in connection with the unaudited financial statements of a public entity. However, when a public entity does not have its annual financial statements audited, an accountant may review the entity's annual or interim financial statements in accordance with Statements on Standards for Accounting and Review Services (SSARS) as permitted by footnote 4 of SAS No. 26, *Association With Financial Statements* [AU section 504.05]. [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

## Definitions

.04 Certain terms are defined for purposes of this statement as follows:

**Nonpublic entity.** A nonpublic entity is any entity other than (a) one whose securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) one that makes a filing with a regulatory agency in preparation for the sale of any class of its securities in a public market,<sup>[2]</sup> or (c) a subsidiary, corporate joint venture, or other entity controlled by an entity covered by (a) or (b). [As amended, October, 1979 by Statement on Standards for Accounting and Review Services No. 2.] (See section 200.)

**Financial statement.** A presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with generally accepted accounting principles<sup>3</sup> or a comprehensive basis of accounting other than generally accepted accounting principles.<sup>4</sup> Financial forecasts, projections and similar presentations,<sup>5</sup> and financial presentations included in tax returns are not financial statements for purposes of this statement. The following financial presentations are examples of financial statements:<sup>6</sup>

- Balance sheet.
- Statement of income.
- Statement of retained earnings.
- Statement of cash flows.
- Statement of changes in owners' equity.
- Statement of assets and liabilities (with or without owners' equity accounts).
- Statement of revenue and expenses.

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<sup>[2]</sup> Footnote deleted.

<sup>3</sup> The definition of generally accepted accounting principles and the hierarchy of established accounting principles presented in SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report* [AU section 411], is also applicable to compilations and reviews of financial statements performed under SSARSs. [Footnote added by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

<sup>4</sup> The term *comprehensive basis of accounting other than generally accepted accounting principles* is defined in SAS No. 62, *Special Reports*, paragraph 4 [AU section 623.04]. Hereafter, reference to generally accepted accounting principles in this statement includes, where applicable, another comprehensive basis of accounting. SAS No. 62, paragraphs 9 and 10 [AU section 623.09-10], provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with an other comprehensive basis of accounting. [Footnote renumbered and amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

<sup>5</sup> Statement on Standards for Attestation Engagements, *Financial Forecasts and Projections* [AT section 200], as well as the AICPA *Guide for Prospective Financial Information*, provide guidance on preparing and reporting on financial forecasts, projections, and similar presentations. [Footnote added by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

<sup>6</sup> SAS No. 62, paragraph 7 [AU section 623.07], provides guidance with respect to suitable titles for financial statements that are prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]



- Summary of operations.
- Statement of operations by product lines.
- Statement of cash receipts and disbursements.

A financial statement may be, for example, that of a corporation, a consolidated group of corporations, a combined group of affiliated entities, a not-for-profit organization, a government unit, an estate or trust, a partnership, a proprietorship, a segment of any of these, or an individual. The method of preparation (for example, manual or computer preparation) is not relevant to the definition of a financial statement.

*Compilation of financial statements.* Presenting in the form of financial statements<sup>7</sup> information that is the representation of management (owners) without undertaking to express any assurance on the statements. (The accountant might consider it necessary to perform other accounting services to enable him to compile financial statements. See paragraph .11.)

*Review of financial statements.* Performing inquiry and analytical procedures that provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the statements in order for them to be in conformity with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting. (The accountant might consider it necessary to compile the financial statements or to perform other accounting services to enable him to perform a review. See paragraph .29.)

The objective of a review differs significantly from the objective of a compilation. The inquiry and analytical procedures performed in a review should provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the financial statements. No expression of assurance is contemplated in a compilation.

The objective of a review also differs significantly from the objective of an audit of financial statements in accordance with generally accepted auditing standards. The objective of an audit is to provide a reasonable basis for expressing an opinion regarding the financial statements taken as a whole. A review does not provide a basis for the expression of such an opinion because a review does not contemplate obtaining an understanding of internal control or assessing control risk, tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter through inspection, observation or confirmation, and certain other procedures ordinarily performed during an audit. A review may bring to the accountant's attention significant matters affecting the financial statements, but it does not provide assurance that the accountant will become aware of all significant matters that would be disclosed in an audit.

## The Accountant's Reporting Obligation

.05 Management, shareholders, credit grantors, and others who use financial statements should be able to readily identify the degree of responsibility, if any, the accountant is taking with respect to such financial statements. A written report is recognized by users of financial statements as the vehicle

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<sup>7</sup> Paragraphs .19-.21 of this statement provide guidance to the accountant engaged to compile financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or another comprehensive basis of accounting. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

by which an accountant indicates that responsibility. Accordingly, whenever an accountant compiles or reviews financial statements of a nonpublic entity, he should issue a report prepared in accordance with the applicable standards in this statement. However, when the accountant performs more than one service (for example, a compilation and an audit), he should issue the report that is appropriate for the highest level of service rendered.\*

**.06** An accountant should not consent to the use of his name in a document or written communication containing unaudited financial statements of a nonpublic entity unless (a) he has compiled or reviewed the financial statements and his report accompanies them, or (b) the financial statements are accompanied by an indication that the accountant has not compiled or reviewed the financial statements and that he assumes no responsibility for them. If an accountant becomes aware that his name has been used improperly in any client-prepared document containing unaudited financial statements, he should advise his client that the use of his name is inappropriate and should consider what other actions might be appropriate, including consultation with his attorney.

**.07** The accountant should not submit unaudited financial statements of a nonpublic entity to his or her client or others unless, as a minimum, he or she complies with the provisions of this statement applicable to a compilation engagement. Submission of financial statements is defined as presenting to a client or others financial statements that the accountant has—

- a. Generated, either manually or through the use of computer software, or
- b. Modified by materially changing account classification, amounts, or disclosures directly on client-prepared financial statements

The following services do not constitute a submission of financial statements:

- Reading client-prepared financial statements
- Typing or reproducing client-prepared financial statements, without modification, as an accommodation to a client<sup>8</sup>
- Proposing correcting journal entries or disclosures to the financial statements, either orally or in written form, that materially change client-prepared financial statements, as long as the accountant does not directly modify the client-prepared financial statements
- Preparing standard monthly journal entries (e.g., standard entries for depreciation and expiration of prepared expenses)
- Providing a client with a financial statement format that does not include dollar amounts, to be used by the client to prepare financial statements
- Advising a client about the selection or use of computer software that the client will use to generate statements

\* SSARS 3 [section 300] permits an accountant who has reviewed the financial statements of a nonpublic entity to issue a compilation report on financial statements for the same period that are included in a prescribed form that calls for departure from generally accepted accounting principles. [As amended, December 1981 by Statement on Standards for Accounting and Review Services 3.] (See section 300.)

<sup>8</sup> If the accountant is named in a client-prepared document containing unaudited financial statements, the accountant should follow the guidance in paragraph .06(b). [Footnote added by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

- Providing the client with the use of or access to computer hardware or software that the client will use to generate statements

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

## Understanding With the Entity

.08 The accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed. The understanding should include a description of the nature and limitations of the services to be performed and a description of the report the accountant expects to render. The understanding should also provide (a) that the engagement cannot be relied upon to disclose errors, fraud, or illegal acts and (b) that the accountant will inform the appropriate level of management<sup>9</sup> of any material errors that come to his or her attention and any fraud or illegal acts that come to his or her attention, unless they are clearly inconsequential. Examples of engagement letters are presented in Appendixes B and C. [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

## Compilation of Financial Statements

.09 Paragraphs .10–.22 provide additional guidance applicable to a compilation of financial statements.

.10 The accountant should possess a level of knowledge of the accounting principles and practices of the industry in which the entity operates that will enable him to compile financial statements that are appropriate in form for an entity operating in that industry.<sup>10</sup> This standard does not prevent an accountant from accepting a compilation engagement for an entity in an industry with which the accountant has no previous experience. It does, however, place upon him a responsibility to obtain the required level of knowledge. He may do so, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, or individuals knowledgeable about the industry.

.11 To compile financial statements, the accountant should possess a general understanding of the nature of the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements. The accountant ordinarily obtains knowledge of these matters through experience with the entity or inquiry of the entity's personnel. On the basis of that understanding, the accountant should consider whether it will be necessary to perform other accounting services, such as assistance in adjusting the books of account or consultation on accounting matters, when he compiles financial statements.

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<sup>9</sup> When a fraud or illegal act involves senior management, the accountant should report the matter to an individual or group at a higher level within the entity, such as the owner/manager or the board of directors. [Footnote added by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

<sup>10</sup> For purposes of this statement, the term *industry* includes not-for-profit activities. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

.12 The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity. However, the accountant may have made inquiries or performed other procedures (see paragraphs .02 and .11). The results of such inquiries or procedures, knowledge gained from prior engagements, or the financial statements on their face may cause the accountant to become aware that information supplied by the entity is incorrect, incomplete, or otherwise unsatisfactory for the purpose of compiling financial statements. (However, see paragraphs .19–.21 for guidance when management elects to omit substantially all of the disclosures required by generally accepted accounting principles.) In such circumstances, the accountant should obtain additional or revised information. If the entity refuses to provide additional or revised information, the accountant should withdraw from the compilation engagement. (See paragraphs .39–.41 for the accountant's responsibilities when he is aware of departures from generally accepted accounting principles.)

.13 Before issuing his report, the accountant should read the compiled financial statements and consider whether such financial statements appear to be appropriate in form and free from obvious material errors. In this context, the term *error* refers to mistakes in the compilation of financial statements, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including inadequate disclosure.

### Reporting on the Financial Statements

.14 Financial statements compiled without audit or review by an accountant should be accompanied by a report stating that—

- a. A compilation has been performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.
- b. A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners).
- c. The financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them.

Any other procedures that the accountant might have performed before or during the compilation engagement should not be described in his report.

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

.15 The date of completion of the compilation should be used as the date of the accountant's report.

.16 Each page of the financial statements compiled by the accountant should include a reference such as "See Accountant's Compilation Report."

.17 The following form of standard report is appropriate for a compilation:

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.18** An accountant may be asked to issue a compilation report on one financial statement, such as a balance sheet, and not on other related financial statements, such as the statements of income, retained earnings, and cash flows. This statement does not preclude the accountant from doing so. Also, an accountant may be asked to compile financial statements included in a prescribed form that calls for departure from generally accepted accounting principles. SSARS 3 [section 300] provides additional guidance, including an alternative form of standard report, applicable to such compilation engagements. [As amended, December 1981 by Statement on Standards for Accounting and Review Services 3.] (See section 300.)

### **Reporting on Financial Statements That Omit Substantially All Disclosures**

**.19** An entity may request an accountant to compile financial statements that omit substantially all of the disclosures required by generally accepted accounting principles, including disclosures that might appear in the body of the financial statements.<sup>11</sup> (As previously noted, reference to generally accepted accounting principles in this statement includes, where applicable, another comprehensive basis of accounting.) The accountant may compile such financial statements provided the omission of substantially all disclosures is clearly indicated in his report and is not, to his knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. When the entity wishes to include disclosures about only a few matters in the form of notes to such financial statements, such disclosures should be labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included."

**.20** Notwithstanding the above, if financial statements compiled in conformity with a comprehensive basis of accounting other than generally accepted accounting principles do not include disclosure of the basis of accounting used, the basis should be disclosed in the accountant's report.

**.21** When financial statements that the accountant has compiled omit substantially all disclosures, the following form of standard report is appropriate:

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings,

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<sup>11</sup> See paragraphs .39–.41 for the accountant's responsibilities when he is aware of other departures from generally accepted accounting principles. However, see SSARS 3 [section 300] for guidance when such financial statements are included in a prescribed form and the prescribed form or related instructions do not request the disclosures required by generally accepted accounting principles. [As amended, December 1981 by Statement on Standards for Accounting and Review Services 3. (See section 300.)] [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures (and the statement of cash flows) required by generally accepted accounting principles.<sup>12</sup> If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

## Reporting When the Accountant Is Not Independent

.22 An accountant is not precluded from issuing a report with respect to his compilation of financial statements for an entity with respect to which he is not independent.<sup>13</sup> If the accountant is not independent, he should specifically disclose the lack of independence. However, the reason for the lack of independence should not be described. When the accountant is not independent, he should include the following as the last paragraph of his report:

I am (we are) not independent with respect to XYZ Company.

## Review of Financial Statements

.23 Paragraphs .24–.38 provide additional guidance applicable to a review of financial statements.

.24 The accountant should possess a level of knowledge of the accounting principles and practices of the industry in which the entity operates and an understanding of the entity's business<sup>14</sup> that will provide him, through the performance of inquiry and analytical procedures, with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles. (As previously noted, reference to generally accepted accounting principles in this statement includes, where applicable, another comprehensive basis of accounting.)

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<sup>12</sup> If the statement of cash flows is omitted, the first and third paragraphs of the report should be modified accordingly. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

<sup>13</sup> In making a judgment about whether he is independent, the accountant should be guided by the AICPA Code of Professional Conduct. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

<sup>14</sup> For purposes of this statement, the term *business* includes not-for-profit entities. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

**.25** The requirement that the accountant possess a level of knowledge of the accounting principles and practices of the industry in which the entity operates does not prevent an accountant from accepting a review engagement for an entity in an industry with which the accountant has no previous experience. It does, however, place upon the accountant a responsibility to obtain the required level of knowledge. He may do so, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, or individuals knowledgeable about the industry.

**.26** The accountant's understanding of the entity's business should include a general understanding of the entity's organization, its operating characteristics, and the nature of its assets, liabilities, revenues, and expenses. This would ordinarily involve a general knowledge of the entity's production, distribution, and compensation methods, types of products and services, operating locations, and material transactions with related parties. An accountant's understanding of an entity's business is ordinarily obtained through experience with the entity or its industry and inquiry of the entity's personnel.

**.27** The accountant's inquiry and analytical procedures should ordinarily consist of the following:

- a.* Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them (see Appendix A).
- b.* Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements (see Appendix A).
- c.* Analytical procedures designed to identify relationships and individual items that appear to be unusual. For the purposes of this statement, analytical procedures consist of (1) comparison of the financial statements with statements for comparable prior period(s), (2) comparison of the financial statements with anticipated results, if available (for example, budgets and forecasts), and (3) study of the relationships of the elements of the financial statements that would be expected to conform to a predictable pattern based on the entity's experience. In applying these procedures, the accountant should consider the types of matters that required accounting adjustments in preceding periods. Examples of relationships of elements in financial statements that would be expected to conform to a predictable pattern may be the relationships between changes in sales and changes in accounts receivable and expense accounts that ordinarily fluctuate with sales, and between changes in property, plant, and equipment and changes in depreciation expense and other accounts that may be affected, such as maintenance and repairs.
- d.* Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements.
- e.* Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles.

- f. Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees.<sup>15</sup>
- g. Inquiries of persons having responsibility for financial and accounting matters concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's business activities or accounting principles and practices, (3) matters as to which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements.

**.28** The accountant is required to obtain a representation letter from members of management whom the accountant believes are responsible for and knowledgeable, directly or through others in the organization, about the matters covered in the representation letter. Normally, the chief executive officer and chief financial officer should sign the representation letter. An example of a representation letter is presented in Appendix D. [Formerly paragraph .31, renumbered and amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.29** Knowledge acquired in the performance of audits of the entity's financial statements, compilation of the financial statements, or other accounting services may result in modification of the review procedures described in the preceding paragraph. However, such modification would not reduce the degree of responsibility the accountant assumes with respect to the financial statements he has reviewed. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

**.30** A review does not contemplate obtaining an understanding of internal control or assessing control risk, tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit. Thus, a review does not provide assurance that the accountant will become aware of all significant matters that would be disclosed in an audit. However, if the accountant becomes aware that information coming to his attention is incorrect, incomplete, or otherwise unsatisfactory, he should perform the additional procedures he deems necessary to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles. (See paragraph .36 for guidance when an accountant is unable to complete a review and paragraphs .39-.41 for the accountant's responsibilities

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<sup>15</sup> The financial statements of the reporting entity ordinarily include an accounting for all significant components, such as unconsolidated subsidiaries and investees. If other accountants are engaged to audit or review the financial statements of such components, the accountant will require reports from other accountants as a basis, in part, for his report on his review of the financial statements of the reporting entity. The accountant may decide to make reference to the work of other accountants in his review report on the financial statements. If such reference is made, the report should indicate the magnitude of the portion of the financial statements audited or reviewed by the other accountants. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]



when he is aware of departures from generally accepted accounting principles.) [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

**.31** Although it is not possible to specify the form or content of the working papers that an accountant should prepare in connection with a review of financial statements because of the different circumstances of individual engagements, the accountant's working papers should describe—

- a. The matters covered in the accountant's inquiry and analytical procedures.
- b. Unusual matters that the accountant considered during the performance of the review, including their disposition.

[Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

### Reporting on the Financial Statements

**.32** Financial statements reviewed by an accountant should be accompanied by a report stating that—

- a. A review was performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.
- b. All information included in the financial statements is the representation of the management (owners) of the entity.
- c. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data.
- d. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed.
- e. The accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles, other than those modifications, if any, indicated in his report.

Any other procedures that the accountant might have performed before or during the review engagement, including those performed in connection with a compilation of the financial statements, should not be described in his report. [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.33** The date of completion of the accountant's inquiry and analytical procedures should be used as the date of his report.

**.34** Each page of the financial statements reviewed by the accountant should include a reference such as "See Accountant's Review Report."

**.35** The following form of standard report is appropriate for a review.<sup>16</sup>

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<sup>16</sup> See paragraphs .39–.41 for the accountant's responsibilities when he is aware of departures from generally accepted accounting principles. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.36** When an accountant is unable to perform the inquiry and analytical procedures he or she considers necessary to achieve the limited assurance contemplated by a review, or the client does not provide the accountant with a representation letter, the review will be incomplete. A review that is incomplete is not an adequate basis for issuing a review report. In such a situation, the accountant should consider the matters discussed in paragraphs .44-.49 in deciding whether it is appropriate to issue a compilation report on the financial statements. [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.37** An accountant may be asked to issue a review report on one financial statement, such as a balance sheet, and not on other related financial statements, such as the statements of income, retained earnings, and cash flows. He may do so if the scope of his inquiry and analytical procedures has not been restricted.

**.38** An accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he is not independent.<sup>17</sup> If the accountant is not independent, he may issue a compilation report provided he complies with the compilation standards.

## Departures From Generally Accepted Accounting Principles

**.39** An accountant who is engaged to compile or review financial statements may become aware of a departure from generally accepted accounting principles (which include adequate disclosure) that is material to the financial statements. (As noted previously, reference in this statement to generally accepted accounting principles includes, where applicable, another compre-

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<sup>17</sup> See footnote 13. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

hensive basis of accounting.) Paragraphs .19–.21 provide guidance to the accountant when the departure relates to the omission of substantially all disclosures in the financial statements he has compiled. SSARS 3 [section 300] provides guidance when the departure is called for by a prescribed form or related instructions. In all other circumstances, if the financial statements are not revised, the accountant should consider whether modification of his standard report is adequate to disclose the departure. [As amended, December 1981 by Statement on Standards for Accounting and Review Services 3.] (See section 300.)

.40 If the accountant concludes that modification of the standard report is appropriate,<sup>18</sup> the departure should be disclosed in a separate paragraph of the report, including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known as the result of the accountant's procedures. The accountant is not required to determine the effects of a departure if management has not done so, provided the accountant states in the report that such determination has not been made. Examples of compilation and review reports that disclose departures from generally accepted accounting principles follow.

#### Compilation Report

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a departure (certain departures) from generally accepted accounting principles that is (are) described in the following paragraph(s).

#### *(Separate paragraph)*

As disclosed in note X to the financial statements, generally accepted accounting principles require that land be stated at cost. Management has informed me (us) that the company has stated its land at appraised value and that, if generally accepted accounting principles had been followed, the land account and stockholders' equity would have been decreased by \$500,000.

or

A statement of cash flows for the year ended December 31, 19XX, has not been presented. Generally accepted accounting principles require that such

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<sup>18</sup> Normally, neither an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, nor an inconsistency in the application of accounting principles would cause the accountant to modify the standard report provided the financial statements appropriately disclose such matters. Nothing in this statement, however, is intended to preclude an accountant from emphasizing in a separate paragraph of his or her report a matter regarding the financial statements. In evaluating the adequacy of the disclosure of going-concern uncertainties, the accountant should look to the guidance provided in SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, paragraphs 10 and 11 [AU section 341.10–.11]. [Footnote renumbered and amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

a statement be presented when financial statements purport to present financial position and results of operations.<sup>19</sup>

### Review Report

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter(s) described in the following paragraph(s), I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

*(Separate paragraph)*

As disclosed in note X to the financial statements, generally accepted accounting principles require that inventory cost consist of material, labor, and overhead. Management has informed me (us) that the inventory of finished goods and work in process is stated in the accompanying financial statements at material and labor cost only, and that the effects of this departure from generally accepted accounting principles on financial position, results of operations, and cash flows have not been determined.

*or*

As disclosed in note X to the financial statements, the company has adopted (description of newly adopted method), whereas it previously used (description of previous method). Although the (description of newly adopted method) is in conformity with generally accepted accounting principles, the company does not appear to have reasonable justification for making a change as required by Opinion no. 20 of the Accounting Principles Board.

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.41** If the accountant believes that modification of his standard report is not adequate to indicate the deficiencies in the financial statements taken as a whole, he should withdraw from the compilation or review engagement and provide no further services with respect to those financial statements. The accountant may wish to consult with his legal counsel in those circumstances.

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<sup>19</sup> If a statement of cash flows is not presented, the first paragraph of the compilation or review report should be modified accordingly. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

## Subsequent Discovery of Facts Existing at Date of Report

.42 Subsequent to the date of the report on the financial statements that the accountant has compiled or reviewed, he may become aware that facts may have existed at that date which might have caused him to believe that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory had he then been aware of such facts. In such circumstances, the accountant may wish to consider the guidance in section 561 of Statement on Auditing Standards No. 1 [AU section 561] in determining an appropriate course of action, giving due consideration to the different objectives of compilation, review, and audit engagements. Because of the legal implications involved in actions contemplated under section 561 of SAS No. 1 [AU section 561], the accountant should consider consulting with his attorney.

## Supplementary Information

.43 When the basic financial statements are accompanied by information presented for supplementary analysis purposes, the accountant should clearly indicate the degree of responsibility, if any, he is taking with respect to such information. When the accountant has reviewed the basic financial statements, this may be accomplished by an explanation in his review report, or in a separate report on the other data, that the review has been made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles, and either

- a. The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and the accountant did not become aware of any material modifications that should be made to such data, or
- b. The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data.

When the accountant has compiled both the basic financial statements and other data presented only for supplementary analysis purposes, his compilation report should also include the other data.

## Change in Engagement From Audit to Review or Compilation (or From Review to Compilation)

.44 An accountant who has been engaged to audit the financial statements of a nonpublic entity in accordance with generally accepted auditing standards (or

an accountant who has been engaged to review the financial statements of a nonpublic entity in accordance with SSARSs) may, before the completion of the audit (review), be requested to change the engagement to a review or compilation (compilation) of financial statements. A request to change the engagement may result from a change in circumstances affecting the entity's requirement for an audit (review), a misunderstanding as to the nature of an audit, review, or compilation, or a restriction on the scope of the audit (review), whether imposed by the client or caused by circumstances. [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.45** Before an accountant who was engaged to perform an audit in accordance with generally accepted auditing standards (or a review in accordance with SSARSs) agrees to change the engagement to a review or compilation (compilation), at least the following should be considered:

- a. The reason given for the client's request, particularly the implications of a restriction on the scope of the audit (review), whether imposed by the client or by circumstances.
- b. The additional audit (review) effort required to complete the audit (review).
- c. The estimated additional cost to complete the audit (review).

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.46** A change in circumstances that affects the entity's requirement for an audit (review), or a misunderstanding concerning the nature of an audit, review or compilation would ordinarily be considered a reasonable basis for requesting a change in the engagement. [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.47** In considering the implications of a restriction on the scope of the audit (review), the accountant should evaluate the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory. Nevertheless, when the accountant has been engaged to audit an entity's financial statements and has been prohibited by the client from corresponding with the entity's legal counsel, the accountant ordinarily would be precluded from issuing a review or compilation report on the financial statements. If in an audit or a review engagement a client does not provide the accountant with a signed representation letter, the accountant would be precluded from issuing a review report on the financial statements and would ordinarily be precluded from issuing a compilation report on the financial statements. [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.48** In all circumstances, if the auditing (review) procedures are substantially complete or the cost to complete such procedures is relatively insignifi-

cant, the accountant should consider the propriety of accepting a change in the engagement. [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

.49 If the accountant concludes, based upon his or her professional judgment, that there is reasonable justification to change the engagement and if he or she complies with the standards applicable to the changed engagement, the accountant should issue an appropriate review or compilation report. The report should not include reference to (a) the original engagement, (b) any auditing or review procedures that may have been performed, or (c) scope limitations that resulted in the changed engagement. [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

## Comparative Financial Statements

[.50] [Superseded by Statement on Standards for Accounting and Review Services 2, effective for reports on comparative financial statements for periods ending on or after November 30, 1979.] (See section 200.)<sup>[20]</sup>

## Effective Date

.51 This statement will be effective for compilations and reviews of financial statements for periods ending on or after July 1, 1979.

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<sup>[20]</sup> Footnote deleted. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]

## Appendix A

### Review of Financial Statements—Illustrative Inquiries

The inquiries to be made in a review of financial statements are a matter of the accountant's judgment. In determining his inquiries, an accountant may consider (a) the nature and materiality of the items, (b) the likelihood of misstatement, (c) knowledge obtained during current and previous engagements, (d) the stated qualifications of the entity's accounting personnel, (e) the extent to which a particular item is affected by management's judgment, and (f) inadequacies in the entity's underlying financial data. The following list of inquiries is for illustrative purposes only. The inquiries do not necessarily apply to every engagement, nor are they meant to be all-inclusive. This list is not intended to serve as a program or checklist in the conduct of a review; rather it describes the general areas in which inquiries might be made. For example, the accountant may feel it is necessary to make several inquiries to answer one of the questions listed below, such as item 3(a).

#### 1. General

- a. What are the procedures for recording, classifying, and summarizing transactions (relates to each section discussed below)?
- b. Do the general ledger control accounts agree with subsidiary records (for example, receivables, inventories, investments, property and equipment, accounts payable, accrued expenses, non-current liabilities)?
- c. Have accounting principles been applied on a consistent basis?

#### 2. Cash

- a. Have bank balances been reconciled with book balances?
- b. Have old or unusual reconciling items between bank balances and book balances been reviewed and adjustments made where necessary?
- c. Has a proper cutoff of cash transactions been made?
- d. Are there any restrictions on the availability of cash balances?
- e. Have cash funds been counted and reconciled with control accounts?

#### 3. Receivables

- a. Has an adequate allowance been made for doubtful accounts?
- b. Have receivables considered uncollectible been written off?
- c. If appropriate, has interest been reflected?
- d. Has a proper cutoff of sales transactions been made?
- e. Are there any receivables from employees and related parties?
- f. Are any receivables pledged, discounted, or factored?
- g. Have receivables been properly classified between current and non-current?

#### 4. Inventories

- a. Have inventories been physically counted? If not, how have inventories been determined?
- b. Have general ledger control accounts been adjusted to agree with physical inventories?



- c. If physical inventories are taken at a date other than the balance sheet date, what procedures were used to record changes in inventory between the date of the physical inventory and the balance sheet date?
  - d. Were consignments in or out considered in taking physical inventories?
  - e. What is the basis of valuation?
  - f. Does inventory cost include material, labor, and overhead where applicable?
  - g. Have write-downs for obsolescence or cost in excess of net realizable value been made?
  - h. Have proper cutoffs of purchases, goods in transit, and returned goods been made?
  - i. Are there any inventory encumbrances?
5. Prepaid Expenses
- a. What is the nature of the amounts included in prepaid expenses?
  - b. How are these amounts amortized?
6. Investments, Including Loans, Mortgages, and Intercompany Investments
- a. Have gains and losses on disposal been reflected?
  - b. Has investment income been reflected?
  - c. Has appropriate consideration been given to the classification of investments between current and noncurrent, and the difference between the cost and market value of investments?
  - d. Have consolidation or equity accounting requirements been considered?
  - e. What is the basis of valuation of marketable equity securities?
  - f. Are investments unencumbered?
7. Property and Equipment
- a. Have gains or losses on disposal of property or equipment been reflected?
  - b. What are the criteria for capitalization of property and equipment? Have such criteria been applied during the fiscal period?
  - c. Does the repairs and maintenance account only include items of an expense nature?
  - d. Are property and equipment stated at cost?
  - e. What are the depreciation methods and rates? Are they appropriate and consistent?
  - f. Are there any unrecorded additions, retirements, abandonments, sales, or trade-ins?
  - g. Does the entity have material lease agreements? Have they been properly reflected?
  - h. Is any property or equipment mortgaged or otherwise encumbered?
8. Other Assets
- a. What is the nature of the amounts included in other assets?
  - b. Do these assets represent costs that will benefit future periods? What is the amortization policy? Is it appropriate?
  - c. Have other assets been properly classified between current and noncurrent?

- d.* Are any of these assets mortgaged or otherwise encumbered?
9. Accounts and Notes Payable and Accrued Liabilities
- a.* Have all significant payables been reflected?
  - b.* Are all bank and other short-term liabilities properly classified?
  - c.* Have all significant accruals, such as payroll, interest, and provisions for pension and profit-sharing plans been reflected?
  - d.* Are there any collateralized liabilities?
  - e.* Are there any payables to employees and related parties?
10. Long-Term Liabilities
- a.* What are the terms and other provisions of long-term liability agreements?
  - b.* Have liabilities been properly classified between current and non-current?
  - c.* Has interest expense been reflected?
  - d.* Has there been compliance with restrictive covenants of loan agreements?
  - e.* Are any long-term liabilities collateralized or subordinated?
11. Income and Other Taxes
- a.* Has provision been made for current and prior-year federal income taxes payable?
  - b.* Have any assessments or reassessments been received? Are there tax examinations in process?
  - c.* Are there timing differences? If so, have deferred taxes been reflected?
  - d.* Has provision been made for state and local income, franchise, sales, and other taxes payable?
12. Other Liabilities, Contingencies, and Commitments
- a.* What is the nature of the amounts included in other liabilities?
  - b.* Have other liabilities been properly classified between current and noncurrent?
  - c.* Are there any contingent liabilities, such as discounted notes, drafts, endorsements, warranties, litigation, and unsettled asserted claims? Are there any unasserted potential claims?
  - d.* Are there any material contractual obligations for construction or purchase of real property and equipment and any commitments or options to purchase or sell company securities?
13. Equity
- a.* What is the nature of any changes in equity accounts?
  - b.* What classes of capital stock have been authorized?
  - c.* What is the par or stated value of the various classes of stock?
  - d.* Do amounts of outstanding shares of capital stock agree with subsidiary records?
  - e.* Have capital stock preferences, if any been disclosed?
  - f.* Have stock options been granted?
  - g.* Has the entity made any acquisitions of its own capital stock?
  - h.* Are there any restrictions on retained earnings or other capital?

14. Revenue and Expenses

- a. Are revenues from the sale of major products and services recognized in the appropriate period?
- b. Are purchases and expenses recognized in the appropriate period and properly classified?
- c. Do the financial statements include discontinued operations or items that might be considered extraordinary?

15. Other

- a. Are there any events that occurred after the end of the fiscal period that have a significant effect on the financial statements?
- b. Have actions taken at stockholder, board of directors, or comparable meetings that affect the financial statements been reflected?
- c. Have there been any material transactions between related parties?
- d. Are there any material uncertainties? Is there any change in the status of material uncertainties previously disclosed?

## Appendix B

### Compilation of Financial Statements—Illustrative Engagement Letter

(Appropriate Salutation)

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will compile, from information you provide, the annual and interim balance sheets and related statements of income, retained earnings, and cash flows of XYZ Company for the year 19XX. We will not audit or review such financial statements. Our report on the annual financial statements of XYZ Company is presently expected to read as follows:

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Our report on your interim financial statements, which statements will omit substantially all disclosures, will include an additional paragraph that will read as follows:

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will also . . . (discussion of other services).

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors that come to our attention and any fraud or illegal acts that come to our attention, unless they are clearly inconsequential.

Our fees for these services . . . .

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.\*

Sincerely yours,

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(Signature of accountant)

Acknowledge:

XYZ Company

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President

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Date

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

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\* Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning "If the foregoing . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement . . . ."

## Appendix C

### Review of Financial Statements—Illustrative Engagement Letter

(Appropriate Salutation)

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will review the balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Our review will consist primarily of inquiries of company personnel and analytical procedures applied to financial data and we will require a representation letter from management. A review does not contemplate obtaining an understanding of internal control or assessing control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit. Thus, a review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit. Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors that come to our attention and any fraud or illegal acts that come to our attention, unless they are clearly inconsequential. We will not perform an audit of such financial statements, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, and, accordingly, we will not express such an opinion on them.

Our report on the financial statements is presently expected to read as follows:

We have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will also . . . (discussion of other services).

Our fees for these services. . . .

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

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(Signature of accountant)

Acknowledged:  
XYZ Company

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President

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Date

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

## Appendix D

### Review of Financial Statements—Illustrative Representation Letter

A review of financial statements consists principally of inquiries of company personnel and analytical procedures applied to financial data. As part of a review of financial statements, the accountant is required to obtain a written representation from his or her client to confirm the oral representations made to the accountant. The following representation letter is included for illustrative purposes only. The accountant may decide, based on the circumstances of the review engagement, that other matters should be specifically included in the letter and that some of the representations included in the illustrative letter are not necessary.

(Date of Accountant's Report)

(To the Accountant)

In connection with your review of the (identification of financial statements) of (name of client) as of (date) and for the (period of review) for the purpose of expressing limited assurance that there are no material modifications that should be made to the statements in order for them to be in conformity with generally accepted accounting principles, we confirm, to the best of our knowledge and belief, the following representations made to you during your review.

1. The financial statements referred to above present the financial position, results of operations, and cash flows of (name of client) in conformity with generally accepted accounting principles. In that connection, we specifically confirm that—
  - a. The company's accounting principles, and the practices and methods followed in applying them, are as disclosed in the financial statements.
  - b. There have been no changes during the (period reviewed) in the company's accounting principles and practices.
  - c. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
  - d. There are no material transactions that have not been properly reflected in the financial statements.
  - e. There are no material losses (such as from obsolete inventory or purchase or sales commitments) that have not been properly accrued or disclosed in the financial statements.
  - f. There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, and there are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.
  - g. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.



- h. There are no related party transactions or related amounts receivable or payable that have not been properly disclosed in the financial statements.
  - i. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
  - j. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.
2. We have advised you of all actions taken at meetings of stockholders, board of directors, and committees of the board of directors (or other similar bodies, as applicable) that may affect the financial statements.
  3. We have responded fully to all inquiries made to us by you during your review.

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(Name of Owner or Chief Executive Officer and Title)

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(Name of Chief Financial Officer and Title, where applicable)

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

## Appendix E

### Rule 201 of the AICPA Code of Professional Conduct [ET section 201.01]

*Rule 201—General Standards.* A member shall comply with the following general standards and with any interpretations thereof as interpreted by bodies designated by Council.

- A. Professional competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.
  - B. Due professional care. Exercise due professional care in the performance of professional services.
  - C. Planning and supervision. Adequately plan and supervise the performance of professional services.
  - D. Sufficient relevant data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.
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[The next page is 3351.]

## AR Section 9100

# ***Compilation and Review of Financial Statements: Accounting and Review Services Interpretations of Section 100***

### **1. Omission of Disclosures in Reviewed Financial Statements**

**.01 Question**—Section 100.19–21, *Compilation and Review of Financial Statements*, provides guidance to the accountant when a departure from generally accepted accounting principles relates to the omission of substantially all disclosures in the financial statements that he has compiled. Section 100.39 states that, in all other circumstances, an accountant should consider whether modification of his standard report is adequate to disclose a departure from generally accepted accounting principles. When a departure from generally accepted accounting principles relates to the omission of substantially all disclosures in financial statements that the accountant has reviewed, is disclosure of such omission in a separate paragraph of the accountant's report similar to the example in section 100.21 an adequate modification of his report?

**.02 Interpretation**—No. The guidance in section 100.19–21 only applies when financial statements that the accountant has *compiled* omit substantially all of the disclosures required by generally accepted accounting principles or another comprehensive basis of accounting. Because of the reporting requirements of section 100, an accountant ordinarily would not accept an engagement to review financial statements that omit substantially all of the disclosures required by generally accepted accounting principles. When an accountant who undertakes to *review* financial statements subsequently finds that his client declines to include substantially all required disclosures, his review report should include the disclosures omitted from the statements. However, if the information required to be disclosed has not been determined by management or is not known as the result of the accountant's procedures, the accountant is not required to determine the specific information that should be disclosed. In that circumstance, the accountant's report should specifically identify the nature of the omitted disclosures.

[Issue Date: December, 1979.]

### **2. Financial Statements Included in SEC Filings**

**.03 Question**—Statements on Standards for Accounting and Review Services are applicable to the unaudited financial statements or other unaudited financial information of nonpublic entities (see definition in section 100.04, as amended by section 200.01, footnote 2). Unaudited financial statements of some entities that are nonpublic are occasionally included in documents filed with the Securities and Exchange Commission. For example, a nonpublic entity may be required to file unaudited financial statements in connection with the issuance of stock to an employee stock purchase plan or in connection with the sale of certain limited partnership units. Do the reporting requirements of section 100 apply in those circumstances?

**.04 Interpretation**—Deciding whether an entity is public or nonpublic for purposes of determining the applicability of section 100 should involve consideration of all relevant facts and the application of professional judgment. Professional standards do not eliminate the need for the exercise of professional judgment, since rules and definitions, no matter how carefully drawn, seldom cover every eventuality.

**.05** In the circumstances described in this question, the accountant might note that the definition of a nonpublic entity contained in section 100, developed from the definition of a publicly traded company in APB Opinion No. 28 [AC section I73.101], differs from the definition of a nonpublic enterprise in FASB Statement No. 21 [AC section S20.407], which excludes any entity “that is required to file financial statements with the Securities and Exchange Commission.” This might lead the accountant to consider the significant responsibilities placed on independent accountants by the various securities acts. He might conclude that the users of unaudited financial statements included in documents filed with the SEC have objectives, needs, and expectations different from those of users of the unaudited financial statements of nonpublic entities that are not included in such filings. He might also conclude that communication with those users, because of the significance they attach to the regulatory and disciplinary responsibilities of the SEC, is not enhanced by including a compilation or review report in a document filed with the SEC, and might responsibly decide that the guidance in Statements on Auditing Standards is more appropriate in those circumstances.

[Issue Date: December, 1979.]

### 3. Reporting on the Highest Level of Service

**.06 Question**—Sections 100.04 and 100.11, *Compilation and Review of Financial Statements*, recognize that an accountant may consider it necessary to perform other accounting services to enable him to compile financial statements. Section 100.05 provides that when an accountant performs more than one service with respect to the financial statements of an entity he should issue the report that is appropriate for the highest level of service rendered. Does section 100.05 require the accountant to evaluate the extent of other accounting services he has performed in a compilation engagement and to decide whether a review report should be issued instead of a compilation report?

**.07 Interpretation**—No. Section 100 requires the accountant to issue a report whenever he completes a compilation or review of the financial statements of a nonpublic entity. The statement that the accountant should issue a report that is appropriate for the highest level of service rendered is intended to make clear that if, for example, the accountant has both compiled and reviewed the financial statements that he was engaged to review, he would need to issue only a review report.

**.08** Section 100 imposes no requirement for the accountant to “upgrade” his report because he has performed other accounting services. However, the accountant may wish to evaluate whether, as a result of performing such services, he is in a position to issue a review report when he was engaged only to perform a compilation. In such circumstances, he may wish to discuss the matter with his client and they may decide to revise their understanding regarding the nature of the services to be rendered.

**.09 Question**—An entity may wish to engage an accountant to compile financial statements each month and also to review the financial statements

of the entity for a quarterly or an annual period. May an accountant issue a compilation report on the monthly financial statements and a review report on quarterly or annual financial statements for a period ending on the same date as one of the monthly financial statements?

**.10 Interpretation**—Yes. An accountant may accept an engagement to perform a compilation of financial statements for an interim period and an engagement to review the financial statements for another period that ends on the same date, provided he complies with the applicable standards for each engagement.

**.11 Question**—An accountant who has been engaged to compile or review the financial statements of an entity may also be requested to perform a higher level of service with respect to the same financial statements. Is the acceptance of such an engagement appropriate?

**.12 Interpretation**—Yes. Section 100 does not prohibit the accountant from accepting an engagement to perform a higher level of service with respect to financial statements that have been previously compiled or reviewed.

[Issue Date: December, 1979.]

#### 4. Discovery of Information After the Date of the Accountant's Report

**.13 Question**—Paragraph 42 of SSARS 1 [section 100.42], *Compilation and Review of Financial Statements*, states that the accountant may wish to consider the guidance in section 561 of Statement on Auditing Standards No. 1 [AU section 561] in determining an appropriate course of action when he becomes aware, subsequent to the date of his report on compiled or reviewed financial statements, that facts may have existed at that date which might have caused him to believe that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory had he then been aware of such facts. What factors would the accountant ordinarily consider in determining an appropriate course of action and how would his judgments be affected by the nature of the service he had provided?

**.14 Interpretation**—Determining an appropriate course of action in the circumstances addressed in paragraph 42 of SSARS 1 [section 100.42] requires the careful exercise of professional judgment. Two factors that the accountant might consider in making this decision are:

- a. *The reliability of the information.* If the information is of such a nature and from such a source that the accountant would have obtained additional or revised information during the course of his compilation or performed additional procedures during the course of his review, the accountant ordinarily would discuss the information with his client and consider the results of that discussion in determining what other action, if any, to take. The nature and extent of any procedures applied by the accountant relative to the reliability of the information would be similar to those that he would have applied had he become aware of the information during the course of his engagement. If the accountant believes that the information is reliable and that it existed at the date of his report, and if the information indicates that the financial statements, his report, or both need revision, the accountant ordinarily would conclude that

persons known to be relying on or likely to rely on the financial statements should be notified in an appropriate manner.

- b. *The existence of persons known to be relying on or likely to rely on the financial statements.* The compiled or reviewed financial statements of nonpublic entities may be distributed to persons who are not otherwise informed about the entity's financial position, results of operations, and cash flows. In evaluating the likelihood that such persons are currently relying on or likely to rely on the financial statements, the accountant should consider the time elapsed since the financial statements were issued. Although a compilation report does not express any form of assurance on the financial statements, it would seldom be appropriate for an accountant to conclude, simply because his responsibilities were limited to a compilation service, that notification of third party users in the absence of notification by the client is not required when the accountant knows that the financial statements should be revised.

.15 As indicated in both paragraph 42 of SSARS 1 [section 100.42] and, more explicitly, in section 561.02 of SAS No. 1 [AU section 561.02], the accountant should consider consulting with his attorney.

[Issue Date: November, 1980.]

## 5. Planning and Supervision

.16 *Question*—SSARS 1 [section 100], *Compilation and Review of Financial Statements*, states that it “provides guidance considered necessary to enable the accountant to comply with the general standards of the profession set forth in the AICPA Code of Professional Conduct.” Rule 201C [ET section 201.01C] states: “Adequately plan and supervise the performance of professional services.” Although Statement on Auditing Standards No. 22 [AU section 311], *Planning and Supervision*, deals with these matters in the context of an audit in accordance with generally accepted auditing standards, SSARS 1 [section 100] does not provide specific guidance for the planning and supervision of a compilation or review engagement. In the absence of specific guidance on planning and supervision in SSARS 1 [section 100], is an accountant required to follow the guidance provided in SAS No. 22 [AU section 311] in the context of a compilation or review engagement for a nonpublic entity?

.17 *Interpretation*—No. Statements on Auditing Standards do not govern engagements to compile or review financial statements of a nonpublic entity. However, an accountant may wish to consider SAS No. 22 [AU section 311] or other reference sources, such as textbooks and articles, when he needs additional information on planning and supervision.

[Approved: May, 1981; Issue Date: August, 1981.]

## 6. Withdrawal From Compilation or Review Engagement

.18 *Question*—Paragraph 41 of SSARS 1 [section 100.41] states: “If the accountant believes that modification of his standard report is not adequate to indicate the deficiencies in the financial statements taken as a whole, he should

withdraw from the compilation or review engagement and provide no further services with respect to those financial statements." Under what circumstances would the accountant ordinarily conclude that it is necessary to withdraw from a compilation or review engagement?

**.19 Interpretation**—Modification of the accountant's standard report as described in paragraph 40 of SSARS 1 [section 100.40] ordinarily should be adequate to indicate the deficiencies in the financial statements taken as a whole. However, in some circumstances, likely to be rare and unusual, the nature, extent, and probable effect of the departures from generally accepted accounting principles or an other comprehensive basis of accounting might cause the accountant to question whether the departures were undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. In those circumstances, withdrawal from the compilation or review engagement might be necessary; however, the accountant ordinarily would not make a decision to withdraw when the client agreed that the effects of the departures should be determined and disclosed in the accountant's report.

**.20** As an illustration, the client may have entered into a number of leasing arrangements that might be required to be capitalized under FASB Statement No. 13 [AC section L10]. The client may not wish to capitalize such leases and may not have determined the effect of this departure from GAAP. However, the client may be willing to disclose in the financial statements information such as the nature of the leased property, the payments required under the leases, and other important terms of the leases. In those circumstances, the accountant is not likely to conclude that the departure was undertaken with the intention of misleading users, even though the effect of the departure is not quantified in the financial statements or the accountant's report.

**.21** On the other hand, the client may have failed, for example, to make provision for doubtful accounts and probable sales returns in the face of significant adverse business and economic conditions and may be unwilling to acknowledge that an adjustment should be considered. This might cause the accountant to question whether other information provided by the client is incorrect, incomplete, or otherwise unsatisfactory. Also, the accountant's general knowledge of the entity's business and related matters might lead him to conclude that this position indicates an intention of misleading users, particularly if the effects of the departure are not determined.

**.22** The accountant would also withdraw from the compilation or review engagement when the financial statements, including disclosures, are not revised and the client refuses to accept the modified standard report that the accountant believes is appropriate.

[Approved: May, 1981; Issue Date: August, 1981.]

## **7. Reporting When There are Significant Departures From Generally Accepted Accounting Principles**

**.23 Question**—When the financial statements include significant departures from generally accepted accounting principles or an other comprehensive basis of accounting, may the accountant modify his standard report under paragraph 40 of SSARS 1 [section 100.40] to include a statement that the financial statements are not in conformity with generally accepted accounting principles or an other comprehensive basis of accounting?

**.24 Interpretation**—No. Including such a statement in the accountant's compilation or review report would be tantamount to expressing an adverse opinion on the financial statements taken as a whole. Such an opinion can be expressed only in the context of an audit engagement. Furthermore, such a statement in a review report would confuse users because it would contradict the expression of limited assurance required by paragraph 32(e) of SSARS 1 [section 100.32(e)].

**.25** However, footnote 18 to paragraph 40 of SSARS 1 [section 100.40, footnote 18] indicates that the accountant is not precluded from emphasizing in a separate paragraph of his report a matter regarding the financial statements. The accountant may wish, therefore, to emphasize the limitations of the financial statements in a separate paragraph of his compilation or review report, depending on his assessment of the possible dollar magnitude of the effects of the departures, the significance of the affected items to the entity, the pervasiveness and overall impact of the misstatements, and whether disclosure has been made of the effects of the departures. Such separate paragraph, which would follow the other modifications of his report (see illustrations in paragraph 40 of SSARS 1 [section 100.40]), might read as follows:

Because the significance and pervasiveness of the matters discussed above makes it difficult to assess their impact on the financial statements taken as a whole, users of these financial statements should recognize that they might reach different conclusions about the company's financial position, results of operations, and cash flows if they had access to revised financial statements prepared in conformity with generally accepted accounting principles.

**.26** Inclusion of such a separate paragraph in the accountant's compilation or review report is not a substitute for disclosure of the specific departures or the effects of such departures when they have been determined by management or are known as a result of the accountant's procedures. In this connection, see the interpretation entitled "Omission of Disclosures in Reviewed Financial Statements" (section 9100.01-.02).

[Approved: May, 1981; Issue Date: August, 1981.]

## **8. Reports on Specified Elements, Accounts, or Items of a Financial Statement**

**.27 Question**—Paragraph 43 of SSARS 1 [section 100.43] provides guidance when the basic financial statements are accompanied by information presented for supplementary analysis purposes. However, a nonpublic entity may wish to engage an accountant to issue a review report on a separate presentation of specified elements, accounts, or items of a financial statement or to report the results of applying agreed-upon procedures to specified elements, accounts, or items of a financial statement. Do SSARS 1 [section 100] reporting requirements for a review apply in such circumstances?

**.28 Interpretation**—No. SSARS 1 [section 100], *Compilation and Review of Financial Statements*, provides guidance concerning the standards and procedures applicable to compilations and reviews of financial statements. Presentations of specified elements, accounts, or items of a financial statement are not financial statements. Statement on Auditing Standards (SAS) No. 62 [AU section 623] and Interpretations thereof provide guidance with respect to reporting on such presentations when the engagement is intended to result in the expression of an audit opinion. SAS No. 75 [AU section 622] provides gui-



dance with respect to reporting on the results of applying agreed-upon procedures to specified elements, accounts, or items of a financial statement. Statements on Standards for Attestation Engagements, *Attestation Standards* [AT section 100], provides guidance with respect to reporting on such presentations when the accountant is engaged to express moderate assurance in a review report.

[Issue Date: November, 1981.]

## 9. Reporting When Management Has Elected to Omit Substantially All Disclosures

**.29 Question**—Paragraph 21 of SSARS 1 [section 100.21] illustrates a form of standard report appropriate when compiled financial statements omit substantially all disclosures. The third paragraph of that illustrative report begins with this sentence: “Management has elected to omit substantially all of the disclosures . . . required by generally accepted accounting principles.” Paragraph 19 of SSARS 1 [section 100.19] requires the accountant to disclose in his report the fact that compiled financial statements omit substantially all disclosures but does not state that there is a need to indicate that “management has elected” to omit such disclosures. May the accountant modify the wording of his report, for example, to state that “Management has not included substantially all of the disclosures . . .” or “The Company has not included substantially all of the disclosures . . .”?

**.30 Interpretation**—Use of the language in the third paragraph of the standard report in paragraph 21 of SSARS 1 [section 100.21] is encouraged; it was designed to impress upon management and the users of financial statements that omission of substantially all disclosures is the entity’s decision, not the accountant’s. However, provided the report clearly indicates this, the wording “Management has elected to omit” may be modified. Language such as “These financial statements do not include substantially all of the disclosures . . .” should not be used because some might infer that the decision to omit disclosures was the accountant’s.

[Issue Date: May, 1982.]

## 10. Reporting on Tax Returns

**.31 Question**—May an accountant comply with a request from a nonpublic entity to issue a compilation or review report on financial information contained in a tax return, as in Form 1040, *U.S. Individual Income Tax Return*, or Form 1120, *U.S. Corporation Income Tax Return*, or in an information return, as in Form 990, *Return of Organization Exempt from Income Tax*, Form 1065, *U.S. Partnership Return of Income*, or Form 5500, *Return of Employee Benefit Plan*?

**.32 Interpretation**—SSARS 1 [section 100] imposes no requirement on an accountant to report on financial information contained in a tax return. The fact that a return is subsequently used for a purpose other than submission to taxing authorities does not affect that exception. However, an accountant may decide to accept an engagement to issue a compilation or review report on such a return. In that case, he must comply with the applicable performance and reporting standards.

[Issue Date: November, 1982.]

## 11. Reporting on Uncertainties

**.33 Question**—Paragraph 39 of SSARS 1 [section 100.39] requires an accountant to consider modification of the standard compilation or review report when he becomes aware of a departure from generally accepted accounting principles (which include adequate disclosure) that is material to the financial statements. What guidance should the accountant follow in evaluating the disclosure of an uncertainty?

**.34 Interpretation**—FASB Statement No. 5 [AC section C59], *Accounting for Contingencies*, Statement No. 47 [AC section C32], *Disclosure of Long-Term Obligations*, and other authoritative accounting literature provide guidance on disclosure of uncertainties. However, the accounting literature does not provide specific guidance on disclosure of uncertainties caused by concern about the entity's ability to continue as a going concern. In evaluating the disclosure of those uncertainties, the accountant should look to the guidance provided by paragraphs 10 and 11 of SAS No. 59 [AU section 341.10–11], *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

**.35** If the accountant believes that the disclosure of an uncertainty is inadequate, he should consider the guidance provided in paragraphs 39–41 [section 100.39–41], and Interpretations 6 and 7 [see JofA, Aug. 81, pp. 111–112], of SSARS 1 [section 9100.18–26] in modifying his report.

**.36 Question**—If the accountant believes that the financial statements appropriately disclose an uncertainty that is not susceptible of reasonable estimation, is the accountant required to issue a compilation or review report with an explanatory paragraph, describing the matter giving rise to the uncertainty?

**.37 Interpretation**—No. Footnote 18 to paragraph 40 of SSARS 1 [section 100.40, footnote 18] indicates that an accountant is not required to modify his compilation or review report for an uncertainty that is appropriately disclosed in the financial statements.

**.38** Although not a requirement, an accountant may wish to draw attention to an uncertainty in an explanatory paragraph of his compilation or review report. If so, the following example may be useful:

“As discussed in Note X, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Company be unable to continue as a going concern.”

**.39 Question**—Paragraph 19 of SSARS 1 [section 100.19] allows the accountant, when he is requested to do so, to compile financial statements that omit substantially all of the disclosures required by GAAP, provided his report clearly indicates the omission and the client's decision to omit the disclosures was not, to the accountant's knowledge, undertaken with the intention of misleading users of the statements. Paragraph 20 [section 100.20] states that disclosure of the use of a comprehensive basis of accounting other than GAAP can never be omitted. Should disclosure of an uncertainty be considered so significant that it also could never be omitted?

**.40 Interpretation**—No. Paragraph 20 of SSARS 1 [section 100.20] requires disclosure of the use of a comprehensive basis of accounting other than

GAAP in an attached footnote, in a note on the face of the financial statements, or in the accountant's report because a user has a right to expect, in the absence of evidence to the contrary, that the financial statements are prepared in conformity with *generally accepted* accounting principles. As to all other matters, the user is adequately warned of the limitations of the financial statements by the report language suggested in paragraph 21 of SSARS 1 [section 100.21] (as amended by SSARS 5).

[Issue Date: December, 1982.]

## 12. Reporting on a Comprehensive Basis of Accounting Other Than Generally Accepted Accounting Principles

**.41 Question**—Footnote 4 to paragraph 4 of SSARS 1 [section 100.04, footnote 4] states that “reference to generally accepted accounting principles in this statement includes, where applicable, another comprehensive basis of accounting.” What modifications to the standard compilation or review report are required when financial statements are prepared on another comprehensive basis of accounting?

**.42 Interpretation**—When financial statements are prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles, the footnotes ordinarily would state the basis of presentation and describe how that basis differs from generally accepted accounting principles. If such disclosures are made, the standard forms of compilation and review reports included in SSARS 1 [section 100] (as amended by SSARS 5) should be used. The reports should be modified to appropriately identify the accompanying financial statements.<sup>1</sup>

**.43** When an accountant compiles financial statements that are presented in accordance with a comprehensive basis of accounting other than generally accepted accounting principles and that omit substantially all disclosures, paragraph 20 of SSARS 1 [section 100.20] requires disclosure of the basis of accounting. This disclosure may be in an attached footnote or in a note on the face of the financial statements. If disclosure is not made as part of the financial statements, modification of the accountant's compilation report would be required. For example, the following sentence could be added to the first paragraph of the standard compilation report: “The financial statements have been prepared on the accounting basis used by the Company for Federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.”

**.44 Question**—Although SSARS 1 [section 100] permits an accountant to compile or review financial statements prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles, all the report examples in SSARS are for financial statement presentations in conformity with GAAP. What are appropriate compilation and review reports for other comprehensive bases of accounting?

**.45 Interpretation**—The following examples are offered.

### Compilation, Full Disclosure—Cash Basis

I (we) have compiled the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19XX, and

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<sup>1</sup> Refer to paragraph 7 of SAS No. 62 [AU section 623.07].

the related statement of revenue collected and expenses paid for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

**Compilation, Omission of Substantially All Disclosures, With No Reference to Basis—Income Tax Basis**

I (we) have compiled the accompanying statement of assets, liabilities, and equity-income tax basis of XYZ Company as of December 31, 19XX, and the related statement of revenue and expense-income tax basis for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the accounting basis used by the Company for Federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenue, and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

**Review—Income Tax Basis**

I (we) have reviewed the accompanying statement of assets, liabilities, and equity-income tax basis of XYZ Company as of December 31, 19XX, and the related statement of revenue and expenses-income tax basis for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in Note X.

[Issue Date: December, 1982; Revised: November, 1992.]

### 13. Additional Procedures

**.46 Question**—Certain procedures, such as confirmation of receivables and observation of inventories, are customarily performed in an audit but not in compilation or review engagements. If an accountant performs such "auditing procedures" in connection with a compilation or review engagement, is he required to change the engagement to an audit?

**.47 Interpretation**—No. Paragraph 12 of SSARS 1 [section 100.12] states that in a compilation engagement there is no requirement “to verify, corroborate, or review information,” but it does not preclude the accountant from making inquiries or performing additional procedures. Similarly, paragraph 30 of SSARS 1 [section 100.30] states that a review engagement “does not contemplate obtaining an understanding of internal control or assessing control risk, tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit.” However, it also indicates that there may be circumstances when the accountant “should perform the additional procedures he deems necessary. . . .” These citations make it clear that the standards for performing compilations or reviews of financial statements do not preclude the accountant from performing procedures that he deems necessary or that his client requests.

**.48** Paragraph 8 of SSARS 1 [section 100.08] does require the accountant to establish an understanding with the entity regarding the services to be performed, including “a description of the report the accountant expects to render,” and this understanding establishes the terms and objectives of the engagement. When the accountant, in connection with a compilation or review engagement, plans to perform procedures that are customarily applied during an audit, he may wish to place additional importance on whether his understanding with the client should be in writing.

**.49** The wording of confirmation requests or other communications related to additional procedures performed in the course of a compilation or review engagement should not use phrases such as “as part of an *audit* of the financial statements” (emphasis supplied).

[Issue Date: March, 1983.]

#### **[14.] Reporting on Financial Statements When the Scope of the Accountant's Procedures Has Been Restricted**

[.50–.53] [Withdrawn April, 1990 by the Accounting and Review Services Committee.]

#### **15. Differentiating a Financial Statement Presentation From a Trial Balance**

**.54 Question**—Paragraph 1 of SSARS 1 [section 100.01] states that the accountant should not submit unaudited financial statements of a nonpublic entity to a client or others unless he or she complies with the provisions of SSARS 1. Paragraph 4 of SSARS 1 [section 100.04] defines a financial statement as “a presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles.”<sup>2</sup>

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<sup>2</sup> A financial statement may be, for example, that of a corporation, a consolidated group of corporations, a combined group of affiliated entities, a not-for-profit organization, a government unit, an estate or trust, a partnership, a proprietorship, a segment of any of these, or an individual. The method of preparation (for example, manual or computer preparation) is not relevant to the definition of a financial statement. References in this interpretation to generally accepted accounting principles are intended to include a comprehensive basis of accounting other than generally accepted accounting principles.

**.55** When the accountant is engaged to compile or review financial statements of a nonpublic entity, he or she should report on those statements in accordance with the requirements of SSARS 1 [section 100]. When the accountant has not been engaged to perform services in accordance with SSARS 1 [section 100], he or she should avoid performing accounting services that result in accountant-generated financial presentations that are not easily identifiable as either a financial statement or a trial balance. Paragraph 2 of SSARS 1 [section 100.02] specifies that SSARS do not establish standards for other accounting services such as preparing a trial balance. What attributes should an accountant consider when differentiating a financial statement from a trial balance to determine if SSARS apply to the accounting services performed?

**.56 Interpretation**—The accountant should consider, among other matters, the following attributes when (1) determining whether a financial presentation is a financial statement or a trial balance and (2) modifying the presentation to eliminate features in the presentation that blur the distinction between a financial statement and a trial balance.

- Generally, a financial statement features the combination of similar general ledger accounts to create classifications or account groupings with corresponding subtotals and totals of dollar amounts. Some examples of these classifications or account groupings are “current assets,” “long-term debt,” and “revenues.” In addition, contra accounts are generally netted against the related primary accounts in financial statement presentations (i.e., “Accounts Receivable Net of Allowance for Bad Debts”). In contrast, a trial balance consists of a listing of all of the general ledger accounts and their corresponding debit or credit balances.
- Financial statements generally contain titles that identify the presentation as one intended to present financial position, results of operations, or cash flows. Typical titles for financial statements include:
  - a. Balance Sheet
  - b. Statement of Income or Statement of Operations
  - c. Statement of Retained Earnings
  - d. Statement of Cash Flows
  - e. Statement of Changes in Owners’ Equity
  - f. Statement of Assets and Liabilities (with or without owners’ equity accounts)
  - g. Statement of Revenue and Expenses
  - h. Summary of Operations
  - i. Statement of Operations by Product Lines
  - j. Statement of Cash Receipts and Disbursements

Examples of typical titles for trial balance presentations are:

- a. Trial Balance
  - b. Working Trial Balance
  - c. Adjusted Trial Balance
  - d. Listing of General Ledger Accounts
- The balance sheet in a set of financial statements segregates asset, liability, and owners’ equity accounts and presents these three elements based on the following basic example equation:

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

The elements of the income statement and their relationship to net income are presented based on the following basic example equation:

$$\text{Revenues} - \text{Expenses} + \text{Gains} - \text{Losses} = \text{Net Income}$$

In a trial balance, no attempt is made to establish a mathematical relationship among the elements except that total debits equal total credits.

- The income statement in a set of financial statements generally contains a caption such as “Net Income” or “Net Revenues over Expenses” that identifies the net results of operations. Trial balance presentations generally do not contain similar captions.
- The balance sheet in a set of financial statements usually presents assets in the order of their liquidity and liabilities in the order of their maturity. In a trial balance, the accounts are generally listed in account number order as they appear in the general ledger.
- In a set of financial statements, the income statement articulates with the balance sheet because the net results of operations are added to or subtracted from opening retained earnings. In a trial balance, the net results of operations are generally not closed out to retained earnings.

.57 The accountant should use judgment when considering these attributes to determine whether the financial presentation constitutes a financial statement or a trial balance. When making this determination, the accountant should consider the preponderance of the attributes of the financial presentation. For example, a trial balance that contains one or two attributes of a financial statement may, in the accountant's judgment, still constitute a trial balance. When the presentation is deemed to be a financial statement and the accountant does not modify the presentation to conform with the attributes of a trial balance, the accountant, at a minimum, should compile the financial statements in accordance with SSARS 1 [section 100].

[Issue Date: September, 1990.]

## **[16.] Determining if the Accountant has “Submitted” Financial Statements Even When Not Engaged to Compile or Review Financial Statements**

[.58-.60] [Withdrawn by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.]<sup>[3]</sup>

## **17. Submitting Draft Financial Statements**

.61 *Question*—Accountants frequently submit draft financial statements (1) because information needed to complete a compilation or review of the financial statements will not be available until a later date or (2) to provide the

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<sup>[3]</sup> Footnote deleted by the issuance of Statement on Standards for Accounting and Review Services 7, November 1992.

client with the opportunity to read and analyze the financial statements prior to their final issuance. Is it permissible for the accountant to submit draft financial statements without intending to comply with the reporting provisions of SSARS 1 [section 100]?

**.62 Interpretation**—No. An accountant should not submit draft financial statements without intending to submit those financial statements in final form accompanied by an appropriate compilation or review report prescribed by SSARS 1 [section 100]. However, as long as the accountant intends to submit the financial statements in final form and labels each page of draft financial statements with words such as “Draft,” “Preliminary Draft,” “Draft—Subject to Changes,” or “Working Draft,” the accountant is not required to comply with the reporting provisions of SSARS 1 [section 100] with respect to those draft financial statements. In the rare circumstance where the accountant intended to but never submitted final financial statements, the accountant may want to document the reasons why he or she was unable to submit those financial statements.

[Issue Date: September, 1990.]

## 18. Special-Purpose Financial Presentations to Comply With Contractual Agreements or Regulatory Provisions

**.63 Question**—An accountant may be asked to report on special-purpose financial statements prepared to comply with a contractual agreement<sup>4</sup> or regulatory provision that specifies a special basis of presentation.<sup>5</sup> In those circumstances, can the accountant issue a compilation or review report on those financial statements in accordance with SSARS 1 [section 100], *Compilation and Review of Financial Statements*?

**.64 Interpretation**—Yes. An accountant who is asked to report on special-purpose financial statements prepared to comply with a contractual agreement or regulatory provision that specifies a special basis of presentation may issue a compilation or review report on those financial statements in accordance with SSARS 1 [section 100] as described in this interpretation. This interpretation describes reporting on presentations based on contractual agreements or regulatory provisions that require a financial presentation that

- a. does not constitute a complete presentation of the entity's assets, liabilities, revenues, or expenses, but is otherwise prepared in conformity with generally accepted accounting principles (GAAP) or an other comprehensive basis of accounting (OCBOA)<sup>6</sup>

or

- b. is a prescribed basis of accounting that does not result in a presentation in conformity with GAAP or OCBOA.

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<sup>4</sup> A contractual agreement as discussed in this interpretation is an agreement between the client and one or more third parties other than the accountant.

<sup>5</sup> When the contractual agreement or regulatory provision specifies the use of a prescribed form for which the accountant has been engaged to compile the financial statements included therein, the accountant should reference SSARS 3 [section 300], *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*, for an alternative form of standard compilation report when the prescribed form calls for a departure from generally accepted accounting principles or another comprehensive basis of accounting.

<sup>6</sup> The term “comprehensive basis of accounting other than generally accepted accounting principles” is defined in SAS No. 62, *Special Reports*, paragraph 4 [AU section 623.04].



***Incomplete Presentation That is Otherwise in Conformity With GAAP or an OCBOA***

.65 An entity may engage an accountant to compile or review a special-purpose financial presentation prepared in compliance with a contractual agreement or regulatory provision that does not constitute a complete presentation of the entity's assets, liabilities, revenues or expenses, but is otherwise prepared in conformity with GAAP or OCBOA. For example, a purchase agreement may require an entity to provide a schedule of net assets sold, measured in conformity with GAAP, but limited to the asset to be sold and liabilities to be transferred. Also, a governmental agency may require a schedule of revenues and certain expenses for an entity in which revenues and expenses are measured in conformity with GAAP, but expenses are defined to exclude certain items such as interest, depreciation, and income taxes. These special-purpose financial presentations should generally be considered as financial statements even though certain items may be excluded. Therefore, in such cases, the presentations would not be considered as presentations of a specified element, account, or item of a financial statement as discussed in paragraphs .27 through .28.

.66 Compiled or reviewed special-purpose financial statements prepared in accordance with a contractual agreement or regulatory provision that do not constitute a complete presentation of the entity's assets, liabilities, revenues or expenses, but are otherwise prepared in conformity with GAAP or OCBOA, should:

- a. Include the disclosure of the basis of presentation in the notes to the financial statements.
- b. Differ from financial statements prepared in accordance with GAAP or OCBOA only to the extent necessary to meet the special purpose for which the presentation is prepared.
- c. Contain similar informative disclosures when the presentation contains items that are the same as, or similar to, those contained in a full set of financial statements.
- d. Include titles that avoid any implication that the special-purpose financial statements are intended to present financial position, results of operations, or cash flows.

.67 When reporting on compiled or reviewed special-purpose financial statements prepared in accordance with a contractual agreement or regulatory provision that does not constitute a complete presentation of the entity's assets, liabilities, revenues or expenses, but is otherwise prepared in conformity with GAAP or OCBOA, the accountant's report should be expanded to include two explanatory paragraphs with the following information. A(n):

***First Additional Paragraph***

- Explanation of what the presentation is intended to present and reference to a note to the financial statements that describes the basis of accounting. In a compilation engagement in which the entity chooses to omit substantially all of the disclosures and does not disclose in the financial statements the basis of presentation, the accountant should disclose the basis in the compilation report.

- Indication that the presentation is not intended to be a complete presentation of the entity's assets, liabilities, revenues, and expenses.<sup>7</sup>

### ***Second Additional Paragraph***

- Statement that the distribution of the report is restricted to those within the entity, to parties to the contract or agreement, for filing with a regulatory agency, or to those with whom the entity is negotiating directly. (Certain reports filed with regulatory agencies are a matter of public record. In those circumstances, the report should state that the restriction is not intended to limit the distribution of the report, which is a matter of public record.)

### **Compilation of Special-Purpose Financial Presentation That is an Incomplete Presentation Prepared in Accordance With a Contractual Agreement but is Otherwise in Conformity With GAAP or OCBOA**

(Note: The two paragraphs to be added to the standard compilation report are italicized.)

I (We) have compiled the accompanying statement of net assets sold of XYZ Company as of December 31, 19XX, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying statement and, accordingly do not express an opinion or any form of assurance on it.

*The accompanying statement was prepared to present the net assets of XYZ Company sold to ABC Company pursuant to the purchase agreement described in Note A, and is not intended to be a complete presentation of XYZ Company's assets and liabilities.*

*This report is intended solely for the information and use of the boards of directors and managements of XYZ Company and ABC Company and should not be used for any other purpose.*

### **Review of Special-Purpose Financial Presentation That is an Incomplete Presentation Prepared in Accordance With a Regulatory Provision but is Otherwise in Conformity With GAAP or OCBOA**

(Note: The two paragraphs to be added to the standard report are italicized. Also, because the report in this example will be filed with a regulatory agency and made available as a part of the public record, the report restriction is modified accordingly.)

I (We) have reviewed the accompanying statement of gross income and direct operating expenses of XYZ Company as of December 31, 19XX, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information in-

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<sup>7</sup> If the basis of presentation is OCBOA, the paragraph should state that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles and that it is not intended to be a complete presentation of the entity's assets, liabilities, revenues, and expenses on the basis described.

cluded in this statement is the representation of management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the statement taken as a whole. Accordingly, I (We) do not express such an opinion.

*The accompanying statement was prepared to present gross income and direct operating expenses of XYZ Company pursuant to the regulatory provision described in Note A, and is not intended to be a complete presentation of XYZ Company's gross income and expenses.*

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying statement of gross income and direct operating expenses in order for it to be in conformity with generally accepted accounting principles.

*This report is intended for the information and use of the board of directors and management of XYZ Company and [specify legislative or regulatory agency]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.*

### **Presentation Prescribed in a Contractual Agreement That is Not in Conformity With GAAP or an OCBOA**

.68 An entity may engage an accountant to compile or review a special-purpose financial presentation prepared in conformity with a basis of accounting prescribed in a contractual agreement that results in a presentation that is not in conformity with GAAP or OCBOA. For example, an acquisition agreement may require an entity to prepare financial statements in which certain assets, such as inventories and properties, are presented in conformity with a valuation basis, that is neither GAAP or OCBOA. Also, a loan agreement may require the borrower to prepare financial statements in which certain assets, such as receivables, inventories, and properties are presented on a basis specified in the agreement that is neither GAAP or OCBOA. In these circumstances, the special-purpose financial presentations are not considered to be prepared in conformity with an OCBOA because the criteria used to prepare such financial statements do not meet the requirement of being "criteria having substantial support," even though the criteria are definite.

.69 Compiled or reviewed special-purpose financial statements prepared in conformity with a contractual agreement that is not in conformity with GAAP or OCBOA should:

- (a) Include the disclosure of the basis of presentation in the notes to the financial statements.
- (b) Contain similar informative disclosures when the presentation contains items that are the same as, or similar to, those contained in GAAP or OCBOA financial statements.
- (c) Include titles that avoid any implication that the special-purpose financial statements are intended to present financial position, results of operations, or cash flows.

.70 When reporting on compiled or reviewed special-purpose financial statements prepared in accordance with a contractual agreement that does not conform to GAAP or OCBOA, the accountant's report should be expanded to include two explanatory paragraphs with the following information. A(n):

***First Additional Paragraph***

- Explanation of what the presentation is intended to present, reference to a note to the financial statements that describes the basis of presentation, and explanation that the presentation is not intended to be a presentation in conformity with generally accepted accounting principles. In a compilation engagement in which the entity chooses to omit substantially all of the disclosures and does not disclose in the financial statements the basis of presentation, the accountant should disclose the basis in the compilation report.
- Description of any significant interpretations made by management of the contractual agreement.

***Second Additional Paragraph***

- Statement that the distribution of the report is restricted to those within the entity, to parties to the contract or agreement, or to those with whom the entity is negotiating directly.

.71 The accountant's standard review report includes a statement that he or she is not aware of any material modifications that should be made to the financial statements in order for them to be "in conformity with GAAP." However, when the accountant is engaged to report on a special-purpose financial presentation pursuant to a contractual agreement that results in a presentation that does not conform with GAAP or OCBOA, the accountant should modify the report to reference the basis of accounting prescribed by the contractual agreement referred to in the notes since the presentation is not intended to conform with GAAP.

.72 If the accountant becomes aware that the information the presentation is intended to present contains a departure from the basis of presentation described that is material to the financial statements, the accountant should consider whether modification of his or her report is adequate to disclose such departure. In those circumstances, the accountant should consider the guidance in paragraphs 39 through 41 of SSARS 1 [section 100.39-41].

**Compilation of Special-Purpose Financial Presentation Pursuant to an Acquisition Agreement That Results in a Presentation That is Not in Conformity With GAAP or OCBOA**

(Note: The two paragraphs to be added to the standard compilation report are italicized.)

*I(We) have compiled the special-purpose statement of assets and liabilities of XYZ Company as of December 31, 19XX and the related special-purpose statements of revenues and expenses and of cash flows for the year then ended in accordance with standards established by the American Institute of Certified Public Accountants.*

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying special-purpose financial statements and, accordingly, do not express an opinion or any form of assurance on them.

*The accompanying special-purpose financial statements were prepared for the purpose of complying with the acquisition agreement between ABC Company and XYZ Company described in Note A, and are not intended to be a presentation in conformity with generally accepted accounting principles.*

*This report is intended for the information and use of the boards of directors and managements of XYZ Company and ABC Company and should not be used for any other purpose.*

**Review of Special-Purpose Financial Presentation Pursuant to a Contractual Agreement That Results in a Presentation That is Not in Conformity With GAAP or OCBOA**

(Note: The two paragraphs to be added to the standard review report are italicized.)

I (We) have reviewed the accompanying special-purpose statement of assets and liabilities of XYZ Company as of December 31, 19XX and the related special-purpose statements of revenues and expenses and of cash flows for the year then ended in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (We) do not express such an opinion.

*The accompanying special-purpose financial statements were prepared for the purpose of complying with Section 4 of a loan agreement between DEF Bank and XYZ Company as discussed in Note A, and are not intended to be a presentation in conformity with generally accepted accounting principles.*

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying special-purpose financial statements in order for them to be in conformity with the basis of accounting described in Note A.

*This report is intended solely for the information and use of the boards of directors and managements of XYZ Company and DEF Bank and should not be used for any other purpose.*

[Issue Date: September, 1990.]

## **19. Reporting When Financial Statements Contain a Departure From Promulgated Accounting Principles That Prevents the Financial Statements From Being Misleading**

.73 *Question*—Rule 203 [ET section 203.01] of the AICPA Code of Professional Conduct states:

A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can

comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

Paragraphs 39 through 41 of SSARS 1 [section 100.39-.41] do not address the Rule 203 [ET section 203.01] circumstances. When the circumstances contemplated by Rule 203 [ET section 203.01] are present, how should the accountant report on the information described in the rule?

**.74 Interpretation**—When the circumstances contemplated by Rule 203 [ET section 203.01] are present in a review engagement, the accountant's review report should include, in a separate paragraph or paragraphs, the information required by Rule 203 [ET section 203.01]. In such a case, the accountant would not modify the standard review report, except for the addition of the separate paragraph(s) that contains the information required by Rule 203 [ET section 203.01], unless there are other reasons to do so that are not associated with the departure from a promulgated principle.

**.75** Rule 203 [ET section 203.01] does not apply to compilation engagements. Accordingly, when the accountant is performing a compilation engagement and is confronted with the circumstances contemplated by Rule 203 [ET section 203.01], the guidance in paragraphs 39 through 41 of SSARS 1 [section 100.39-.41] pertaining to departures from generally accepted accounting principles should be followed.

[Issue Date: February, 1991.]

## 20. Applicability of Statements on Standards for Accounting and Review Services to Litigation Services

**.76 Question**—Statements on Standards for Accounting and Review Services (SSARS) do not apply to the types of accounting services exemplified in paragraph 2 of SSARS 1, *Compilation and Review of Financial Statements* [section 100.02]. When are litigation services excluded from the applicability of SSARS?

**.77 Interpretation**—SSARS do not apply to financial statements submitted in conjunction with litigation services that involve pending or potential formal legal or regulatory proceedings before a "trier of fact"<sup>8</sup> in connection with the resolution of a dispute between two or more parties when the:

- (a) Service consists of being an expert witness.
- (b) Service consists of being a "trier of fact" or acting on behalf of one.
- (c) Accountant's work under the rules of the proceedings is subject to detailed analysis and challenge by each party to the dispute.
- (d) Accountant is engaged by an attorney to do work that will be protected by the attorney's work product privilege and such work is not intended to be used for other purposes.

When performing such litigation services the accountant should comply with Rule 201, *General Standards* [ET section 201.01], of the AICPA Code of Professional Conduct.

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<sup>8</sup> A "trier of fact" in this section means a court, regulatory body, or government authority; their agents; a grand jury; or an arbitrator or mediator of the dispute.

**.78 Question**—When do SSARS apply to litigation service engagements?

**.79 Interpretation**—SSARS apply to litigation service engagements when the accountant:

- a. Submits unaudited financial statements of a nonpublic entity that are the representation of management (owners) to others who under the rules of the proceedings do not have the opportunity to analyze and challenge the accountant's work, or
- b. Is specifically engaged to submit, in accordance with SSARS, financial statements that are the representation of management (owners).

[Issue Date: May, 1991.]

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[The next page is 3401.]

## AR Section 200

# Reporting on Comparative Financial Statements

Issue date, unless  
otherwise indicated:  
October, 1979

.01 This statement establishes standards for reporting on comparative financial statements<sup>1</sup> of a nonpublic entity when financial statements of one or more periods presented have been compiled or reviewed in accordance with SSARS 1 [section 100].<sup>2</sup>

.02 When comparative financial statements are presented, the accountant should issue an appropriate report(s) covering each period presented in accordance with the provisions of this statement.<sup>3</sup>

.03 Client-prepared financial statements of some periods that have not been audited, reviewed, or compiled may be presented on separate pages of a document that also contains financial statements of other periods on which the accountant has reported if they are accompanied by an indication by the client that the accountant has not audited, reviewed, or compiled those financial statements and that the accountant assumes no responsibility for them. Whenever the accountant becomes aware that financial statements of other periods that have not been audited, reviewed, or compiled have been presented in columnar form in a document with financial statements on which he has reported and that his name has been used or his report included in the document, he should advise his client that the use of his name or report is inappropriate and should consider what other actions might be appropriate, including consultation with his attorney.

.04 An accountant may modify his report with respect to one or more financial statements for one or more periods while issuing an unmodified report on the other financial statements presented.

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<sup>1</sup> This statement supersedes Statement on Standards for Accounting and Review Services 1, paragraph 50.

<sup>2</sup> For purposes of this statement, a nonpublic entity is any entity other than (a) one whose securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) one that makes a filing with a regulatory agency in preparation for the sale of any class of its securities in a public market, or (c) a subsidiary, corporate joint venture, or other entity controlled by an entity covered by (a) or (b). This statement amends SSARS 1, paragraph 4 [section 100.04], by substituting the foregoing definition of a nonpublic entity. The terms *financial statements*, *compilation*, and *review* are defined in paragraph 4 of SSARS 1 [section 100.04].

<sup>3</sup> See paragraphs .33 to .35 for guidance during the transition period when an accountant has previously issued a disclaimer of opinion in accordance with the provisions of SAS No. 26 [AU section 504]. See SSARS 3 [section 300] for additional guidance when the accountant compiles comparative financial statements included in a prescribed form that calls for departure from generally accepted accounting principles or, where applicable, from a comprehensive basis of accounting other than generally accepted accounting principles. [As amended, December, 1981 by Statement on Standards for Accounting and Review Services No. 3.] (See section 300.)



.05 Compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles<sup>4</sup> are not comparable to financial statements that include such disclosures. Accordingly, the accountant should not issue a report on comparative financial statements when statements for one or more, but not all, of the periods presented omit substantially all of the disclosures required by generally accepted accounting principles. (See paragraphs .29 and .30 for guidance on reporting on financial statements that previously did not omit substantially all of the disclosures required by generally accepted accounting principles.)

.06 Each page of the comparative financial statements compiled or reviewed by the accountant should include a reference such as "See Accountant's Report."

## Definitions

.07 The following definitions apply for purposes of this statement:

*Comparative financial statements.* Financial statements of two or more periods presented in columnar form.

*Continuing accountant.* An accountant who has been engaged to audit, review, or compile and report on the financial statements of the current period and one or more consecutive periods immediately prior to the current period.

*Updated report.* A report issued by a continuing accountant that takes into consideration information that he becomes aware of during his current engagement and that reexpresses his previous conclusions or, depending on the circumstances, expresses different conclusions on the financial statements of a prior period as of the date of his current report.<sup>5</sup>

*Reissued report.* A report issued subsequent to the date of the original report that bears the same date as the original report. A reissued report may need to be revised for the effects of specific events; in these circumstances, the report should be dual-dated with the original date and a separate date that applies to the effects of such events.

## Continuing Accountant's Standard Report

.08 A continuing accountant who performs the same or a higher level of service with respect to the financial statements of the current period should update his report on the financial statements of a prior period presented with those of the current period.<sup>6</sup> A continuing accountant who performs a lower level of service with respect to the financial statements of the current period should either (a) include as a separate paragraph of his report a description of the responsibility assumed for the financial statements of the prior period (see paragraphs .11 and .12) or (b) reissue his report on the financial statements of the prior period.

.09 Examples of a continuing accountant's standard report on comparative financial statements when the same level of service has been performed for both periods are presented below:

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<sup>4</sup> For purposes of this statement, reference to generally accepted accounting principles includes, where applicable, a comprehensive basis of accounting other than generally accepted accounting principles as defined in SAS No. 62, paragraph 4 [AU section 623.04].

<sup>5</sup> See paragraphs 15 and 33 of SSARS 1 [sections 100.15 and 100.33].

<sup>6</sup> For purposes of this statement, a *review* is a higher level of service and a *compilation* is a lower level of service. When one of the periods is audited, see paragraphs .27 and .28.

**Compilation Each Period**

I (we) have compiled the accompanying balance sheets of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

February 1, 19X3

**Review Each Period**

I (we) have reviewed the accompanying balance sheets of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) reviews, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

March 1, 19X3

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.10** An example of a continuing accountant's standard report on comparative financial statements for two periods when the financial statements of the current period have been reviewed and those of the prior period have been compiled is presented below:

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objec-

tive of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the 19X2 financial statements in order for them to be in conformity with generally accepted accounting principles.

The accompanying 19X1 financial statements of XYZ Company were compiled by me (us). A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the 19X1 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

March 1, 19X3

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

.11 A continuing accountant who performs a compilation of the current-period financial statements and has previously reviewed one or more prior-period financial statements should report as indicated in either (a) or (b) below:

- a. Issue a compilation report on the current-period financial statements that includes a description of the responsibility assumed for the financial statements of the prior period. The description should include the original date of the accountant's report and should also state that he has not performed any procedures in connection with that review engagement after that date.
- b. Combine his compilation report on the financial statements of the current period with his reissued review report on the financial statements of the prior period or present them separately. The combined report should state that the accountant has not performed any procedures in connection with that review engagement after the date of his review report.

.12 An example of a paragraph that may be added to a compilation report on the current-period financial statements describing the responsibilities assumed when prior-period financial statements were reviewed is presented below:

The accompanying 19X1 financial statements of XYZ Company were previously reviewed by me (us) and my (our) report dated March 1, 19X2, stated that I was (we were) not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles. I (we) have not performed any procedures in connection with that review engagement after the date of my (our) report on the 19X1 financial statements.

## **Continuing Accountant's Changed Reference to a Departure from Generally Accepted Accounting Principles**

.13 During his current engagement, the accountant should be aware that circumstances or events may affect the prior-period financial statements presented, including the adequacy of informative disclosures. The accountant

should consider the effects on his report on the prior-period financial statements of circumstances or events coming to his attention.

.14 When the accountant's report on the financial statements of the prior period contains a changed reference to a departure from generally accepted accounting principles,<sup>7</sup> his report should include a separate explanatory paragraph indicating—

- a. The date of the accountant's previous report.
- b. The circumstances or events that caused the reference to be changed.
- c. When applicable, that the financial statements of the prior period have been changed.

.15 The following is an example of an explanatory paragraph appropriate when an accountant's report contains a changed reference to a departure from generally accepted accounting principles:

In my (our) previous (compilation) (review) report dated March 1, 19X2, on the 19X1 financial statements, I (we) referred to a departure from generally accepted accounting principles because the company carried its land at appraised values. However, as disclosed in note X, the company has restated its 19X1 financial statements to reflect its land at cost in accordance with generally accepted accounting principles.

## Predecessor's Compilation or Review Report

.16 A predecessor may reissue his report at the client's request if he is able to make satisfactory arrangements with his former client and if he complies with the provisions of paragraphs .20 to .24. However, a predecessor is not required to reissue his compilation or review report on the financial statements of a prior period. If he does not reissue his compilation or review report on the financial statements of a prior period, a successor should either (a) make reference to the report of the predecessor in accordance with the provisions of paragraphs .17 to .19 or (b) perform a compilation, review, or audit of the financial statements of the prior period and report on them accordingly.<sup>[8]</sup>

## Predecessor's Compilation or Review Report Not Presented

.17 When the financial statements of a prior period have been compiled or reviewed by a predecessor whose report is not presented and the successor has not compiled or reviewed those financial statements, the successor should make reference in an additional paragraph(s) of his report on the current-period financial statements to the predecessor's report on the prior-period financial statements. This reference should include the following matters:

- a. A statement that the financial statements of the prior period were compiled or reviewed by another accountant (other accountants).<sup>9</sup>

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<sup>7</sup> A changed reference includes the removal of a prior reference or the inclusion of a new reference.

<sup>[8]</sup> Footnote deleted by issuance of Statement on Standards for Accounting and Review Services No. 4. (See section 400.)

<sup>9</sup> The successor should not name the predecessor in his report.

- b. The date of his (their) report.
- c. A description of the standard form of disclaimer or limited assurance, as applicable, included in the report.
- d. A description or a quotation of any modifications of the standard report and of any paragraphs emphasizing a matter regarding the financial statements.

.18 When the predecessor reviewed the financial statements of the prior period, an example of the last paragraph of the successor's report is as follows:

The 19X1 financial statements of XYZ Company were reviewed by other accountants whose report dated March 1, 19X2, stated that they were not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles.

.19 When the predecessor compiled the financial statements of the prior period, an example of the last paragraph of the successor's report is as follows:

The 19X1 financial statements of XYZ Company were compiled by other accountants whose report dated February 1, 19X2, stated that they did not express an opinion or any other form of assurance on those statements.

### **Predecessor's Compilation or Review Report Reissued**

.20 Before reissuing a compilation or review report on the financial statements of a prior period, a predecessor should consider whether his report is still appropriate. In making this determination, the predecessor should consider (a) the current form and manner of presentation of the prior-period financial statements, (b) subsequent events not previously known, and (c) changes in the financial statements that require the addition or deletion of modifications to the standard report.

.21 A predecessor should perform the following procedures before reissuing his compilation or review report on the financial statements of a prior period:

- a. Read the financial statements of the current period and the successor's report.
- b. Compare the prior-period financial statements with those previously issued and with those of the current period.
- c. Obtain a letter from the successor that indicates whether he is aware of any matter that, in his opinion, might have a material effect on the financial statements, including disclosures, reported on by the predecessor. The predecessor should not refer in his reissued report to this letter or to the report of the successor.

.22 If a predecessor becomes aware of information, including information about events or transactions occurring subsequent to the date of his previous report, that he believes may affect the prior-period financial statements or his report on them, he should (a) make inquiries or perform analytical procedures similar to those he would have performed if he had been aware of such information at the date of his report on the prior-period financial statements and (b) perform any other procedures he considers necessary in the circumstances. For example, the predecessor may wish to discuss this information

with the successor or to review the working papers of the successor as they relate to the matters affecting the prior-period financial statements. If the predecessor decides, based on the information obtained, that his report on the prior-period financial statements should be revised, he should follow the guidance in paragraphs .14, .15, .23, and .24.

**.23** A predecessor's knowledge of the current affairs of his former client is obviously limited in the absence of a continuing relationship. Consequently, when reissuing his report on the prior-period financial statements, a predecessor should use the date of his previous report to avoid any implication that he has performed procedures after that date other than those described in paragraphs .20 to .22. If the predecessor revises his report or if the financial statements are restated, he should dual-date his report (for example, "March 1, 19X1, except for note X, as to which the date is March 15, 19X2"). The predecessor's responsibility for events occurring subsequent to the completion of his engagement is limited to the specific event referred to in the note or otherwise disclosed. He should also obtain a written statement from the former client setting forth the information currently acquired and its effect on the prior-period financial statements and, if applicable, expressing an understanding of its effect on the predecessor's reissued report.

**.24** If a predecessor is unable to complete the procedures described in paragraphs .20 to .23, he should not reissue his report and may wish to consult with his attorney regarding the appropriate course of action.

### Changed Prior-Period Financial Statements

**.25** When the financial statements of the prior period have been changed, either the predecessor or the successor should report on them as restated. If the predecessor accepts the reporting obligation, he should follow the guidance in paragraphs .20 to .24. If the successor reports on the financial statements, he should comply with the compilation or review standards in SSARS 1 [section 100] (or perform an audit) with respect to such restated prior-period financial statements and report on them accordingly. If a successor reports on the restated financial statements, he should not refer in his report to the predecessor's previously issued report.

**.26** If the restatement does not involve a change in accounting principles or their application (for example, the correction of an error), the accountant may wish to include an explanatory paragraph in his report with respect to the restatement, but he should not otherwise modify his standard report provided the financial statements appropriately disclose such matters.

### Reporting When One Period Is Audited

**.27** Notwithstanding the provisions of paragraph .08, the accountant should follow the guidance in statements on auditing standards, which provide guidance on reporting on comparative financial statements when the current-period financial statements have been audited and those for one or more prior periods have been compiled or reviewed.

**.28** When the current-period financial statements of a nonpublic entity have been compiled or reviewed and those of the prior period have been audited, the accountant should issue an appropriate compilation or review report on the current-period financial statements and either (a) the report on the prior period should be reissued or (b) the report on the current period

should include as a separate paragraph an appropriate description of the responsibility assumed for the financial statements of the prior period. In the latter case, the separate paragraph should indicate (a) that the financial statements of the prior period were audited previously, (b) the date of the previous report, (c) the type of opinion expressed previously, (d) if the opinion was other than unqualified, the substantive reasons therefor, and (e) that no auditing procedures were performed after the date of the previous report. An example of such a separate paragraph is the following:

The financial statements for the year ended December 31, 19X1, were audited by us (other accountants) and we (they) expressed an unqualified opinion on them in our (their) report dated March 1, 19X2, but we (they) have not performed any auditing procedures since that date.

## Reporting on Financial Statements That Previously Did Not Omit Substantially All Disclosures

**.29** An accountant who has compiled, reviewed, or audited financial statements that did not omit substantially all of the disclosures required by generally accepted accounting principles may subsequently be requested to compile statements for the same period that do omit substantially all of those disclosures when they are to be presented in comparative financial statements. Notwithstanding the provisions of SSARS 1, paragraph 5 [section 100.05], in these circumstances the accountant may report on comparative compiled financial statements that omit such disclosures if he includes in his report an additional paragraph indicating the nature of the previous service rendered with respect to those financial statements and the date of his previous report.

**.30** An example of a report appropriate when prior-period financial statements that omit substantially all disclosures have been compiled from previously reviewed financial statements for the same period is presented below:

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The accompanying 19X1 financial statements were compiled by me (us) from financial statements that did not omit substantially all of the disclosures required by generally accepted accounting principles and that I (we) previously reviewed as indicated in my (our) report dated March 1, 19X2.

February 1, 19X3

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

## Change of Status—Public/Nonpublic Entity

.31 When reporting on comparative financial statements for either interim or annual periods, the current status of the entity should govern whether the accountant is guided by statements on auditing standards or statements on standards for accounting and review services. A previously issued report that is not appropriate for the current status of the entity should not be reissued or referred to in the report on the financial statements of the current period.

.32 For example, if the entity is a public entity in the current period and was a nonpublic entity in the prior period, a compilation or review report previously issued on the financial statements of the prior period should not be reissued or referred to in the report on the financial statements of the current and one or more prior periods.<sup>10</sup> If an entity is a nonpublic entity in the current period and was a public entity in the prior period, the annual financial statements of the prior period may have been audited.<sup>11</sup> In these circumstances, the accountant should refer to paragraph .28 for guidance on the appropriate method of reporting on the comparative financial statements.

## Transition

.33 A continuing accountant who previously issued a disclaimer of opinion in accordance with SAS No. 26 [AU section 504], on prior-period financial statements of a nonpublic entity that are presented with financial statements for periods ending on or after July 1, 1979, should either (a) reissue his previous report on such prior-period financial statements, (b) include in his report on the financial statements of the current period a description of the responsibility assumed with respect to the financial statements of the prior period, or (c) comply with the compilation or review standards in SSARS 1 [section 100] (or perform an audit) with respect to such prior-period financial statements and report on them accordingly.

.34 An example of the last paragraph of the accountant's report that describes the responsibility assumed for the financial statements of the prior period is as follows:

The 19X1 financial statements of XYZ Company were reported upon by me (us) in accordance with standards then in effect and my (our) report dated March 1, 19X2, stated that I (we) had not audited those financial statements and accordingly did not express an opinion on them.

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<sup>10</sup> In these circumstances, the accountant should refer to statements on auditing standards for guidance on the appropriate method of reporting on the comparative financial statements.

<sup>11</sup> If an unaudited disclaimer of opinion was previously issued on the financial statements of the prior period, it should not be reissued or referred to in the report on the financial statements of the current period. In these circumstances, the accountant should comply with the compilation or review standards in SSARS 1 [section 100] (or perform an audit) and report accordingly on the financial statements of the prior period. (However, see also paragraphs .33 to .35 concerning reporting during the transition period.)



.35 A predecessor accountant who previously issued a disclaimer of opinion in accordance with SAS No. 26 [AU section 504], on prior-period financial statements of a nonpublic entity that are presented with financial statements for periods ending on or after July 1, 1979, may reissue his previous report or may comply with the compilation or review standards in SSARS 1 [section 100] (or perform an audit) with respect to such prior-period financial statements and report on them accordingly. If the predecessor accountant does not reissue his previous report, the successor accountant should either refer to the predecessor accountant's previous report in his report on the financial statements of the current period or comply with the compilation or review standards in SSARS 1 [section 100] (or perform an audit) with respect to such prior-period financial statements and report on them accordingly.

### Effective Date

.36 This statement will be effective for reports on comparative financial statements for periods ending on or after November 30, 1979. However, earlier application is encouraged for periods ending on or after July 1, 1979.

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[The next page is 3421.]

## AR Section 9200

# Reporting on Comparative Financial Statements: Accounting and Review Services Interpretations of Section 200

### 1. Reporting on Financial Statements that Previously Did Not Omit Substantially All Disclosures

**.01 Question**—Paragraph 29 of SSARS 2 [section 200.29], *Reporting on Comparative Financial Statements*, states that an accountant who has compiled, reviewed, or audited financial statements that do not omit substantially all of the disclosures required by generally accepted accounting principles may subsequently compile financial statements for the same period that do omit substantially all of those disclosures when they are to be presented in comparative financial statements. In these circumstances, SSARS 2 [section 200] requires the accountant's compilation report to include an additional paragraph indicating (a) the nature of the service rendered with respect to the financial statements that previously did not omit substantially all disclosures and (b) the date of his previous report.

**.02** When the accountant has previously audited such financial statements, he may have issued a qualified opinion (see paragraphs 38–39 of SAS No. 58 [AU section 508.20–.21], *Reports on Audited Financial Statements*) or an adverse opinion (see paragraphs 67–69 of SAS No. 58) [AU section 508.58–.60], or he may have disclaimed an opinion (see paragraphs 70–72 of SAS No. 58 [AU section 508.61–.63]). What effect, if any, should this have on the accountant's report on the comparative compiled financial statements? Also, when the accountant has previously compiled or reviewed such financial statements, what effect should a modification to his compilation or review report (see paragraphs 39 to 41 of SSARS No. 1 [section 100.39–.41]) have on the accountant's report on the comparative compiled financial statements?

**.03 Interpretation**—If financial statements that omit substantially all disclosures are compiled from financial statements that the accountant has previously audited, his report on the comparative compiled financial statements should indicate whether he expressed a qualified or adverse opinion, or disclaimed an opinion, on the audited financial statements, and the substantive reasons therefor. Similarly, if the accountant issued a modified compilation or review report or a report containing any paragraphs emphasizing a matter regarding the financial statements (see paragraphs 39 to 41 of SSARS No. 1 [section 100.39–.41]) on financial statements that previously did not omit substantially all disclosures, the accountant's reference to that report in his report on the comparative compiled financial statements should include a description or a quotation of any modifications of the standard report and of any paragraphs emphasizing a matter regarding the financial statements.

**.04** Statements on standards for accounting and review services do not require an accountant to modify the standard compilation or review report for an uncertainty or an inconsistency in the application of generally accepted accounting principles. When the accountant's report on comparative compiled

financial statements that omit substantially all of the disclosures required by generally accepted accounting principles includes a reference to a previous audit report that includes an explanatory paragraph describing an uncertainty, users may assume, in the absence of an indication to the contrary, that the uncertainty has been resolved. Thus, in such circumstances, the accountant should consider the desirability of emphasizing the uncertainty in a separate paragraph of that portion of his report that relates to the financial statements for the current period.

[Issue Date: November, 1980.]

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[The next page is 3441.]

## AR Section 300

## Compilation Reports on Financial Statements Included in Certain Prescribed Forms

Issue date, unless  
otherwise indicated:  
December, 1981

.01 The requirements of SSARS 1 [section 100] and SSARS 2 [section 200] are applicable when the unaudited financial statements of a nonpublic entity are included in a prescribed form. This statement amends SSARS 1 [section 100] and SSARS 2 [section 200] to provide for an alternative form of standard compilation report when the prescribed form or related instructions call for departure from generally accepted accounting principles by specifying a measurement principle not in conformity with generally accepted accounting principles or by failing to request the disclosures required by generally accepted accounting principles.<sup>1</sup> This statement also provides additional guidance applicable to reports on financial statements included in a prescribed form.<sup>2</sup>

.02 For purposes of this statement, a *prescribed form* is any standard preprinted form designed or adopted by the body to which it is to be submitted, for example, forms used by industry trade associations, credit agencies, banks, and governmental and regulatory bodies other than those concerned with the sale or trading of securities. A form designed or adopted by the entity whose financial statements are to be compiled is not considered to be a prescribed form. The terms *financial statement* and *nonpublic entity* are defined in paragraph 4 of SSARS 1 [section 100.04], as amended.

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<sup>1</sup> For purposes of this statement, reference to generally accepted accounting principles includes, where applicable, a comprehensive basis of accounting other than generally accepted accounting principles as defined in SAS No. 62, paragraph 4 [AU section 623.04]. Disclosure of the basis of accounting should be made when a comprehensive basis of accounting other than generally accepted accounting principles is used.

<sup>2</sup> This statement amends SSARS 1 [section 100] in four places. The following sentences are added to the end of paragraph 18 of SSARS 1 [section 100.18]:

Also, an accountant may be asked to compile financial statements included in a prescribed form that calls for departure from generally accepted accounting principles. SSARS 3 provides additional guidance, including an alternative form of standard report, applicable to such compilation engagements.

The following sentence is added to the end of footnote 11, paragraph 19 of SSARS 1 [section 100.19, footnote 11]:

However, see SSARS 3 for guidance when such financial statements are included in a prescribed form and the prescribed form or related instructions do not request the disclosures required by generally accepted accounting principles.

The following is added as the penultimate sentence of paragraph 39 of SSARS 1 [section 100.39]:

SSARS 3 provides guidance when the departure is called for by a prescribed form or related instructions.

The following is added as a footnote to the last sentence of paragraph 5 of SSARS 1 [section 100.05]:

SSARS 3 permits an accountant who has reviewed the financial statements of a nonpublic entity to issue a compilation report on financial statements for the same period that are included in a prescribed form that calls for departure from generally accepted accounting principles.

This statement also amends SSARS 2 by adding the following sentence to footnote 3, paragraph 2 [section 200.02, footnote 3]:

See SSARS 3 for additional guidance when the accountant compiles comparative financial statements included in a prescribed form that calls for departure from generally accepted accounting principles or, where applicable, from a comprehensive basis of accounting other than generally accepted accounting principles.

**.03** There is a presumption that the information required by a prescribed form is sufficient to meet the needs of the body that designed or adopted the form and that there is no need for that body to be advised of departures from generally accepted accounting principles required by the prescribed form or related instructions. Therefore, in the absence of a requirement or a request for a review report on the financial statements included in a prescribed form, the following form of standard compilation report may be used when the unaudited financial statements of a nonpublic entity are included in a prescribed form that calls for departure from generally accepted accounting principles:

I (we) have compiled the (identification of financial statements, including period covered and name of entity) included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

My (our) compilation was limited to presenting in the form prescribed by (name of body) information that is the representation of management (owners). I (we) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements (including related disclosures) are presented in accordance with the requirements of (name of body), which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

[As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

**.04** If the accountant becomes aware of a departure from generally accepted accounting principles other than departures that may be called for by the prescribed form or related instructions (see paragraph .01), he should follow the guidance in paragraphs 39 through 41 of SSARS 1 [section 100.39-.41] regarding such departures. (The sentence introducing the separate paragraph of his report disclosing the departure might read as follows: "However, I did become aware of a departure from generally accepted accounting principles that is not called for by the prescribed form or related instructions, as described in the following paragraph.") If the accountant becomes aware of a departure from the requirements of the prescribed form or related instructions, he should consider that departure as the equivalent of a departure from generally accepted accounting principles in determining its effect on his report.

**.05** The accountant should not sign a preprinted report form that does not conform with the guidance in this statement or SSARS 1 [section 100], *et seq.* amended, whichever is applicable. In such circumstances, the accountant should append an appropriate report to the prescribed form.

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[The next page is 3451.]

## AR Section 9300

# **Compilation Reports on Financial Statements Included in Certain Prescribed Forms: Accounting and Review Services Interpretations of Section 300**

### **1. Omission of Disclosures in Financial Statements Included in Certain Prescribed Forms**

**.01 Question**—The accountant may have reviewed financial statements including disclosures required by generally accepted accounting principles and be asked to compile financial statements included in a prescribed form which does not request such disclosures. If the measurement principles to be used do not cause the compiled financial statements in the prescribed form to be materially different from the reviewed statements, can the accountant's compilation report on the prescribed form refer to the accountant's report on the reviewed financial statements?

**.02 Interpretation**—Yes. The footnote to paragraph 5 of SSARS 1 [section 100.05] (as amended) permits an accountant who has reviewed the financial statements of a nonpublic entity to issue a compilation report on financial statements for the same period that are included in a prescribed form that calls for a departure from generally accepted accounting principles. When the difference between the previously reviewed financial statements and the financial statements included in the prescribed form is limited to the omission of disclosures not requested by the form, the accountant may wish to refer to his review report in his report on the compiled financial statements included in the prescribed form. This might be accomplished by adding a sentence such as the following to the second paragraph of the report illustrated in paragraph 3 of SSARS 3 [section 300.03] or as a separate paragraph: "These financial statements were compiled by me (us) from financial statements for the same period which I (we) previously reviewed, as indicated in my (our) report dated \_\_\_\_\_." The reference to a previous review report should include a description or a quotation of any modifications of the standard review report previously issued and of any paragraphs emphasizing a matter regarding the financial statements.

**.03** If the measurement principles used in the compiled financial statements in the prescribed form cause such financial statements to be materially different from the previously reviewed financial statements, no reference should be made to the review engagement.

[Issue Date: May, 1982]

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[The next page is 3471.]

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\* The report included in paragraph 3 of SSARS 3 [section 300.03] is an alternate form of report. If the accountant elects to use the standard compilation report included in SSARS 1, paragraph 17 [section 100.17] this sentence may be added to that report.

## AR Section 400

# Communications Between Predecessor and Successor Accountants

Issue date, unless  
otherwise indicated:  
December, 1981

.01 This statement provides guidance to a successor accountant who decides to communicate with a predecessor accountant regarding acceptance of an engagement to compile or review the financial statements of a nonpublic entity.<sup>1</sup> It requires the predecessor accountant to respond promptly and fully in the event of such communications (paragraphs .03 through .06) in ordinary circumstances. This statement also provides guidance on additional inquiries a successor accountant may wish to make of a predecessor, and the predecessor's responses (paragraphs .07 through .08), to facilitate the conduct of the successor's compilation or review engagement. It also requires a successor accountant who becomes aware of information that leads him or her to believe the financial statements reported on by the predecessor accountant may require revision to request that the client communicate this information to the predecessor accountant (paragraph .10). [As amended by Statement on Standards for Accounting and Review Services 7, effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in SSARS 7.]

.02 The following definitions apply for purposes of this statement:

*Successor accountant.* An accountant who has been invited to make a proposal for an engagement to compile or review financial statements or who has accepted such an engagement.

*Predecessor accountant.* An accountant who has resigned or who has been notified that his services have been terminated and who, at a minimum, was engaged to compile the financial statements of the entity for the prior year or for a period ended within twelve months of the date of the financial statements to be compiled or reviewed by the successor.

## Inquiries Regarding Acceptance of an Engagement

.03 A successor accountant is not required to communicate with a predecessor accountant in connection with acceptance of a compilation or review engagement, but he may decide to do so, for example, when circumstances such as the following exist.<sup>[2]</sup>

- a. The information obtained about the prospective client and its management and principals is limited or appears to require special attention.

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<sup>1</sup> This statement amends SSARS 2 by deletion of footnote 8 in paragraph 16 [section 200.16, footnote 8] of that statement.

<sup>[2]</sup> Footnote deleted by the issuance of Statement on Standards for Accounting and Review Services 7.

- b. The change in accountants takes place substantially after the end of the accounting period for which financial statements are to be compiled or reviewed.
- c. There have been frequent changes in accountants.

.04 Except as permitted by the AICPA Code of Professional Conduct, an accountant is precluded from disclosing any confidential information obtained in the course of a professional engagement without the consent of his client. Accordingly, when the successor accountant decides to communicate with the predecessor, he should request the client (a) to permit him to make inquiries of the predecessor accountant and (b) to authorize the predecessor accountant to respond fully to those inquiries.<sup>3</sup> If the client refuses to comply fully with this request, the successor accountant should consider the reasons for, and implications of, that refusal in connection with acceptance of the engagement.

.05 When the successor accountant decides to communicate with the predecessor, his inquiries may be oral or written and ordinarily would include inquiries concerning (a) information that might bear on the integrity of management (owners), (b) disagreements with management (owners) about accounting principles or the necessity for the performance of certain procedures, (c) the cooperation of management (owners) in providing additional or revised information, if necessary, and (d) the predecessor's understanding of the reason for the change of accountants.

.06 The predecessor accountant should respond promptly and fully, on the basis of facts known to him, when he receives inquiries of the type described in paragraph .05, as distinguished from other inquiries discussed in paragraphs .07 and .08. However, if the predecessor decides, due to unusual circumstances<sup>4</sup> such as impending litigation, not to respond fully, he should indicate that his response is limited. The successor accountant should consider the reasons for, and implications of, such a response in connection with acceptance of the engagement.

## Other Inquiries

.07 The successor accountant may wish to make other inquiries of the predecessor to facilitate the conduct of his compilation or review engagement. Examples of such inquiries, which may be made either before or after acceptance of the engagement, might include questions about prior periods regarding (a) inadequacies noted in the entity's underlying financial data, (b) the necessity to perform other accounting services, and (c) areas that have required inordinate time in prior periods.

.08 A successor accountant also may wish to obtain access to the predecessor's working papers.<sup>5</sup> In these circumstances, the successor should request the client to authorize the predecessor to allow such access. It is customary in

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<sup>3</sup> The successor accountant is not precluded from making these inquiries before making a proposal for the engagement.

<sup>4</sup> Unpaid fees, as discussed in paragraph .08, are not considered to be an unusual circumstance for purposes of this paragraph; however, see paragraph .08.

<sup>5</sup> Statements on Standards for Accounting and Review Services do not specify the form or content of the working papers that an accountant should prepare in connection with a review engagement and are silent regarding the working papers, if any, that would be prepared in a compilation engagement. Accordingly, a successor accountant ordinarily would inquire about the nature of the working papers prepared by the predecessor before deciding that access would be helpful.



such circumstances for the predecessor to make himself available to the successor for consultation and to make available certain of his working papers. The predecessor and successor should agree on those working papers that are to be made available and those that may be copied. Ordinarily, the predecessor should provide the successor access to working papers relating to matters of continuing accounting significance and those relating to contingencies. Valid business reasons (including but not limited to unpaid fees), however, may lead the predecessor to decide not to allow access to his working papers.<sup>6</sup> Further, when more than one accountant is considering acceptance of an engagement, the predecessor should not be expected to make himself or his working papers available until the client has designated one of those accountants as the successor.

.09 The successor accountant should not make reference to the report or work of a predecessor accountant in his own report, except as specifically permitted by SSARS 2 [section 200] or SAS No. 26 [AU section 504] with respect to the financial statements of a prior period.

## Financial Statements Reported on by Predecessor Accountant

.10 If during his engagement the successor accountant becomes aware of information that leads him to believe that financial statements reported on by the predecessor accountant may require revision, he should request his client to communicate this information to the predecessor accountant. Paragraph 42 of SSARS 1 [section 100.42] provides guidance to the predecessor accountant in determining an appropriate course of action. If the client refuses to communicate with the predecessor or if the successor accountant is not satisfied with the predecessor's course of action, the successor would be well advised to consult with his attorney.

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[The next page is 3481.]

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<sup>6</sup> See Ethics Interpretation 501-1 [ET section 501.02] for guidance on what constitutes an accountant's working papers. [Footnote added April 30, 1982, by the Accounting and Review Services Committee.]

## AR Section 9400

# ***Communications Between Predecessor and Successor Accountants: Accounting and Review Services Interpretations of Section 400***

### **1. Reports on the Application of Accounting Principles**

**.01 Question**—SSARS 4, *Communications Between Predecessor and Successor Accountants* [section 400], provides guidance on communication between a successor accountant who has been invited to propose on a compilation or review engagement or who has accepted such an engagement and a predecessor accountant who has resigned or who has been notified that his services have been terminated. The guidance provided concerns only the situation in which one accountant succeeds another in a compilation or review engagement.

**.02** In other situations, an accountant in public practice may be requested by an entity that has not engaged that accountant to report on its financial statements to provide advice about the application of accounting principles or about the type of report to be issued on its financial statements (compilation, review, or audit report). Such requests are often made to obtain a second opinion about these matters from another accountant. What guidance should be followed by the accountant who is requested to provide advice on these matters?

**.03 Interpretation**—SAS No. 50, *Reports on the Application of Accounting Principles* [AU section 625], applies to any accountant in public practice asked to provide written advice on the application of accounting principles to specified transactions (either completed or proposed), on the type of report that may be rendered on a specific entity's financial statements, or to intermediaries on the application of accounting principles not involving facts or circumstances of a particular principal.

**.04** SAS No. 50 also applies to oral advice on the application of accounting principles to a specific transaction, or the type of report that may be rendered on an entity's financial statements, when the reporting accountant concludes the advice is intended to be used by a principal to the transaction as an important factor considered in reaching a decision.

**.05** Paragraph 7 of SAS No. 50 states that the reporting accountant who is requested to provide such written or oral advice by an entity should consult with that entity's accountant, if any, to ascertain all the available facts relevant to forming a professional judgment. The reporting accountant should follow the performance and reporting guidance in SAS No. 50 for such engagements.

[Issue Date: August, 1987.]

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## AR Section 600

# Reporting on Personal Financial Statements Included in Written Personal Financial Plans

Issue date, unless  
otherwise indicated:  
September, 1986

.01 This statement provides an exemption from Statement on Standards for Accounting and Review Services (SSARS) 1 [section 100], as amended, for personal financial statements that are included in written personal financial plans prepared by an accountant, and specifies the form of written report required under the exemption.<sup>1</sup> However, this statement does not preclude an accountant from complying with SSARS 1 [section 100] in such engagements.

.02 Because the purpose of such financial statements is solely to assist in developing the client's personal financial plan, they frequently omit disclosures required by generally accepted accounting principles (GAAP) and contain departures from GAAP or from an established comprehensive basis of accounting other than GAAP.

.03 An accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of SSARS 1 [section 100], as amended, when all of the following conditions exist:

- a. The accountant establishes an understanding with the client, preferably in writing, that the financial statements—
  - (i) Will be used solely to assist the client and the client's advisers to develop the client's personal financial goals and objectives.
  - (ii) Will not be used to obtain credit or for any purposes other than developing these goals and objectives.
- b. Nothing comes to the accountant's attention during the engagement that would cause the accountant to believe that the financial statements will be used to obtain credit or for any purposes other than developing the client's financial goals and objectives.

.04 An accountant using the exemption provided by this statement should issue a written report stating that the unaudited financial statements—

- a. Are designed solely to help develop the financial plan.
- b. May be incomplete or contain other departures from GAAP and should not be used to obtain credit or for any purposes other than developing the personal financial plan.
- c. Have not been audited, reviewed, or compiled.

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<sup>1</sup> For purposes of this statement, personal financial statements are those financial statements of an individual that meet the definition of financial statements in paragraph 4 of SSARS 1 [section 100.04], *Compilation and Review of Financial Statements*.

.05 The following is an illustration of an appropriate report when an accountant uses the exemption provided by this statement.

The accompanying Statement of Financial Condition of X, as of December 31, 19XX, was prepared solely to help you develop your personal financial plan. Accordingly, it may be incomplete or contain other departures from generally accepted accounting principles and should not be used to obtain credit or for any purposes other than developing your financial plan. We have not audited, reviewed, or compiled the statement.

.06 Each of the personal financial statements should include a reference to the accountant's report.

## Effective Date

.07 This statement is effective on September 30, 1986.

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## AR Section 9600

# ***Reporting on Personal Financial Statements Included in Written Personal Financial Plans: Accounting and Review Services Interpretation of Section 600***

### **1. Submitting a Personal Financial Plan to a Client's Advisers**

**.01 Question**—Paragraph 3 of Statements on Standards for Accounting and Review Services (SSARS) 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* [section 600.03], states that an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of SSARS 1, *Compilation and Review of Financial Statements* [section 100] when, among other conditions, the accountant establishes an understanding with the client that the financial statements will be used solely to assist the client and the client's advisers to develop the client's personal financial goals and objectives. Does developing the client's personal financial goals and objectives encompass implementing the personal financial plan by the client or the client's advisers?

**.02 Interpretation**—Yes. Developing a client's personal financial goals and objectives includes implementing the personal financial plan by the client or the client's advisers because implementing the plan may be considered the culmination of the process of developing personal financial goals and objectives. Therefore, an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client, to be used by the client or the client's advisers to implement the personal financial plan, without complying with the requirements of SSARS 1 [section 100], provided the conditions in paragraph 3 of SSARS 6 [section 600.03] exist.

**.03 Examples of implementation of a personal financial plan by the client's advisers include use of the plan by:**

- an insurance broker who will identify specific insurance products.
- an investment adviser who will provide specific recommendations about the investment portfolio.
- an attorney who will draft a will or trust documents.

[Issue Date: May, 1991.]

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## APPENDIXES

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. . . cross-references to statements on standards for accounting and review services . . . cross-references for accounting and review services interpretations . . . changes in statements on standards for accounting and review services . . .

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## AR Appendix A

## Cross-References to Statements on Standards for Accounting and Review Services

<u>No</u>	<u>Date Issued</u>	<u>Title</u>	<u>Section</u>
1	Dec. 1978	<b>Compilation and Review of Financial Statements</b> .....	100
2	Oct. 1979	<b>Reporting on Comparative Financial Statements</b> .....	200
		Amends section 100.04; Supersedes section 100.50.	
3	Dec. 1981	<b>Compilation Reports on Financial Statements Included in Certain Prescribed Forms</b> .....	300
		Amends sections 100.05, .18, .19, .39, and 200.02.	
4	Dec. 1981	<b>Communications Between Predecessor and Successor Accountants</b> . . . .	400
		Amends section 200.16.	
5	July 1982	<b>Reporting on Compiled Financial Statements</b> .....	500
		Deleted by SSARS 7, November 1992, because the provisions of SSARS 5 have been incorporated into sections 100, 200, and 300.	
6	Sept. 1986	<b>Reporting on Personal Financial Statements Included in Written Personal Financial Plans</b> .....	600
7	Nov. 1992	<b>Omnibus Statement on Standards for Accounting and Review Services—1992</b>	
		Not published as a stand-alone section; Integrated to amend sections 100.01, .04, .07, .08, .14, .17, .21, .28, .32, .35, .36, .40, .44–49, .53–55, 200.09, .10, .30, 300.03, 400.01, and .03; Deletes SSARS 5.	

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## AR Appendix B

## Cross-Reference Table for Accounting and Review Services Interpretations

*(Sections of the text are cross-referenced to Interpretations)*

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100	Omission of Disclosures in Reviewed Financial Statements (No. 1) . . . . .	9100.01-.02
100	Financial Statements Included in SEC Filings (No. 2) . . . . .	9100.03-.05
100	Reporting on the Highest Level of Service (No. 3) . . . . .	9100.06-.12
100	Planning and Supervision (No. 5) . . . . .	9100.16-.17
100	Reports on Specified Elements, Accounts, or Items of a Financial Statement (No. 8) . . . . .	9100.27-.28
100	Reporting on Tax Returns (No. 10) . . . . .	9100.31-.32
100	Reporting on a Comprehensive Basis of Accounting Other Than Generally Accepted Accounting Principles (No. 12) . . . . .	9100.41-.45
100	Differentiating a Financial Statement Presentation From a Trial Balance (No. 15) . . . . .	9100.54-.57
100	Submitting Draft Financial Statements (No. 17) . . . . .	9100.61-.62
100	Special-Purpose Financial Presentations to Comply With Contractual Agreements or Regulatory Provisions (No. 18) . . . . .	9100.63-.72
100	Submitting a Personal Financial Plan to a Client's Advisers (No. 1) . . . . .	9600.01-.03
100.01	Differentiating a Financial Statement Presentation From a Trial Balance (No. 15) . . . . .	9100.54-.57
100.02	Differentiating a Financial Statement Presentation From a Trial Balance (No. 15) . . . . .	9100.54-.57
100.02	Applicability of Statements on Standards for Accounting and Review Services to Litigation Services (No. 20) . . . . .	9100.76-.79
100.04	Financial Statements Included in SEC Filings (No. 2) . . . . .	9100.03-.05
100.04	Reporting on the Highest Level of Service (No. 3) . . . . .	9100.06-.12
100.04	Reporting on a Comprehensive Basis of Accounting Other Than Generally Accepted Accounting Principles (No. 12) . . . . .	9100.41-.45
100.04	Differentiating a Financial Statement Presentation From a Trial Balance (No. 15) . . . . .	9100.54-.57



<i>Section</i>	<i>Interpretation Subject (Interpretation No.)</i>	<i>Interpretation Section</i>
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100.05	Omission of Disclosures in Financial State- ments Included in Certain Prescribed Forms (No. 1) . . . . .	9300.01-03
100.08	Additional Procedures (No. 13) . . . . .	9100.46-49
100.11	Reporting on the Highest Level of Service (No. 3) . . . . .	9100.06-12
100.12	Additional Procedures (No. 13) . . . . .	9100.46-49
100.17	Omission of Disclosures in Financial State- ments Included in Certain Prescribed Forms (No. 1) . . . . .	9300.01-03
100.19	Omission of Disclosures in Reviewed Financial Statements (No. 1) . . . . .	9100.01-02
100.19	Reporting When Management Has Elected to Omit Substantially All Disclosures (No. 9) . . . .	9100.29-30
100.19	Reporting on Uncertainties (No. 11) . . . . .	9100.33-40
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100.40	Reporting When There Are Significant Departures from Generally Accepted Accounting Principles (No. 7) .....	9100.23-.26
100.40	Reporting on Uncertainties (No. 11) .....	9100.33-.40
100.40	Reporting on Financial Statements that Previously Did Not Omit Substantially All Disclosures (No. 1) .....	9200.01-.04
100.40	Special-Purpose Financial Presentations to Comply With Contractual Agreements or Regulatory Provisions (No. 18) .....	9100.63-.72
100.40	Reporting When Financial Statements Contain a Departure From Promulgated Accounting Principles That Prevents the Financial Statements From Being Misleading (No. 19) .....	9100.73-.75
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300	Special-Purpose Financial Presentations to Comply With Contractual Agreements or Regulatory Provisions (No. 18) .....	9100.63-.72
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## AR Appendix C

## ***Schedule of Changes in Statements on Standards for Accounting and Review Services***

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100	.04	Amended by SSARS 2	11/30/79
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100	.14	Amended by SSARS 5	12/31/82
100	.14	Amended by SSARS 7	11/92
100	.17	Amended by SSARS 5	12/31/82
100	.17	Amended by SSARS 7	11/92
100	.18	Amended by SSARS 3	12/81
100	.19	Amended by SSARS 3	12/81
100	.21	Amended by SSARS 5	12/31/82
100	.21	Amended by SSARS 7	11/92
100	.28	Renumbered as paragraph .29	11/92
100	.29	Renumbered as paragraph .30	11/92
100	.30	Renumbered as paragraph .31	11/92
100	.31	Amended by SSARS 7 and renumbered as paragraph .28	11/92
100	.32	Amended by SSARS 7	11/92
100	.35	Amended by SSARS 7	11/92
100	.36	Amended by SSARS 7	11/92
100	.39	Amended by SSARS 3	12/81
100	.40	Amended by SSARS 5	12/31/82
100	.40	Amended by SSARS 7	11/92
100	.44	Amended by SSARS 7	11/92
100	.45	Amended by SSARS 7	11/92
100	.46	Amended by SSARS 7	11/92
100	.47	Amended by SSARS 7	11/92
100	.48	Amended by SSARS 7	11/92
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100	.53	Amended by SSARS 7	11/92
100	.54	Amended by SSARS 7	11/92
100	.55	Amended by SSARS 7	11/92

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200	.09	Amended by SSARS 7	11/92
200	.10	Amended by SSARS 7	11/92
200	.16	Amended by SSARS 4	12/81
200	.30	Amended by SSARS 5	12/31/82
200	.30	Amended by SSARS 7	11/92
300	.03	Amended by SSARS 5	12/31/82
300	.03	Amended by SSARS 7	11/92
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400	.03	Amended by SSARS 7	11/92
500	...	Deleted by SSARS 7	11/92

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