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# Development of compilations and reviews

Larry Joe Rankin

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*Larry J. Rankin*
MIAMI UNIVERSITY

# THE DEVELOPMENT OF COMPILATIONS AND REVIEWS

*Abstract:* The article reviews the significant events in the development of AICPA standards which led to the establishment of two types of CPA engagements on the financial statements of nonpublic businesses—compilations and reviews. As a part of this development, the article describes various CPA-user communication problems which resulted from unaudited financial statement engagements and limited procedure engagements.

The American Institute of Certified Public Accountants (AICPA) in 1978 issued Statement on Standards for Accounting and Review Services No. 1 (SSARS #1),[1] which provides two types of certified public accountant (CPA) engagements and reports on the financial statements of nonpublic businesses. These were compilations and reviews. The objective of a compilation by a CPA is to present management's representations in the form of financial statements without expressing any assurances about the statements. The objective of a review by a CPA is to perform analytical and inquiry procedures which provide the CPA with a reasonable basis for expressing limited assurance that no material modifications should be made to the statements in order for them to be in conformity with generally accepted accounting principles.

Compilations and reviews replaced two types of CPA engagements on the financial statements of nonpublic businesses. These were unaudited financial statement engagements and certain limited procedure engagements. CPAs reported on both of these types of engagements by issuing an opinion disclaimer.

The purpose of this article is to review the significant events in the development of AICPA standards which led to the establishment of compilations and reviews. The article places particular emphasis on various communication problems between CPAs and users with respect to unaudited financial statement engagements and certain limited procedure engagements. The article describes how the accounting profession responded to these problems by issuing auditing standards and ultimately, a compilation and review standard (SSARS #1).

The article is comprised of four sections. The first section describes the significant events in the development of AICPA standards pertaining to unaudited financial statements for the time period, 1896-1946. During this period, CPAs were associated with unaudited financial statements, but the accounting profession emphasized procedural and reporting guidance for audit engagements. The next section describes the events and standards associated with unaudited financial statements and limited procedure engagements for the time period, 1947-1961. During this period, the accounting profession first officially recognized unaudited financial statement engagements. Also, CPAs began to practice certain types of limited procedure engagements during this time. The third section describes the events and standards related to unaudited financial statements and limited procedure engagements for the time period, 1962-1976. These events and standards immediately preceded the development of compilations and reviews. Finally, the last section describes how the accounting profession responded to the problems associated with unaudited financial statements and limited procedure engagements by issuing a separate compilation and review standard for nonpublic businesses.

### *Developing Auditing Standards: 1896-1946*

During this period, the accounting profession recognized the need on the part of third parties for CPA association with financial statements, and the American Institute of Accountants (AIA), now known as the American Institute of Certified Public Accountants, developed and issued auditing standards to guide such an association. For example, bankers wanted CPA association with a loan customer's audited financial statements, because they relied on the CPA's assurances to provide input for the loan decision.[2] Before these standards were developed, third parties received a variety of CPA reports as a result of different types of CPA engagements. In addition, the absence of professional guidelines for these engagements and the corresponding reports contributed to this variety.[3] In 1939, the AIA issued Statement on Auditing Procedure No. 1 (SAP #1) in response to this problem. This standard required the CPA to issue either an audit opinion on the fairness of the financial statements, taken as a whole, or to report on the findings of the engagement without expressing an opinion.[4] With the publication of SAP #1 and other auditing standards, the AIA emphasized the

CPA's association with audited financial statements and related audit reports.

The AIA did not recognize the CPA's association with unaudited financial statements during this period. However, Robert H. Montgomery's auditing book reported that the preparation of a balance sheet from the unaudited books of a client was within the scope of a CPA's services. Montgomery further acknowledged that CPAs reported on unaudited financial statements by (1) issuing the statements on plain paper without CPA comments, (2) issuing the statements on the CPA's letterhead without CPA comments, or (3) issuing the statements on the CPA's letterhead with CPA comments. Comments were either a report of findings or a disclaimer, such as "Without Audit," "Tentative," or "Pro Forma."[5] Table 1 summarizes the authoritative bodies, AICPA standards, engagement tasks, and report forms which were in effect for unaudited financial statements in 1946 at the end of the first time period under consideration.

Table 1

Unaudited Financial Statements: 1946

| | *Unaudited Financial Statements* |
|---|---|
| Authoritative Body | None |
| AICPA Standards | None |
| Engagement Tasks | Prepare financial statements |
| Report Forms | Financial statements on plain paper without CPA comments, or<br>Financial statements on CPA's letterhead without CPA comments, or<br>Financial statements on CPA's letterhead with marking i.e. "Tentative," "Without Audit," "Pro Forma," or<br>Financial statements on CPA's letterhead with report of findings |

Misunderstandings between CPAs and users resulted from the CPA's association with unaudited financial statements. For example, Montgomery explained that CPAs did not intend to give assurances to third parties about unaudited financial statements: "The representation by a client that a statement obtained in this manner has behind it the auditor's assurances of its correctness is pure fraud on the part of the client."[6] Nevertheless, when the financial statements appeared on the CPA's letterhead, it was feared that users attributed audit-type assurances to the statements merely because a CPA was associated with the statements.[7] Also, there was uncertainty about how third parties perceived the association of CPAs with financial statements which appeared on the CPA's letterhead without comments. Bankers could, for example, variously perceive that the CPA typed the statements, prepared the statements without audit, applied limited auditing procedures to the statements, or audited the statements.[8]

### *Recognizing Unaudited Financial Statements: 1947-1961*

The accounting profession continued to emphasize the CPA's association with audited financial statements and the CPA's attest function during this period. This function comprised the CPA's expression of an opinion on the fairness of the statements taken as a whole. Performance of this function gave credibility to the financial statements and increased users' reliance on the statements. Reporting problems remained, however, when CPAs performed unaudited financial statement engagements and limited procedure engagements. One problem was that users might not have understood the CPA's responsibilities for either unaudited financial statements or limited procedure engagements. A related problem was that users might have attributed audit-type assurances to either unaudited financial statements or limited procedure engagements.

#### *Unaudited Financial Statements*

The AIA first recognized the CPA's association with unaudited financial statements in Statement on Auditing Procedure No. 23 (SAP #23). SAP #23 modified SAP #1 by requiring the CPA to issue either an audit opinion or an opinion disclaimer about the fairness of the financial statements.[9] SAP #23 required the CPA to report on unaudited financial statements by (1) issuing the statements on plain paper without CPA comments or (2) issuing the statements on the CPA's letterhead with CPA comments. Comments were specified as either a report of findings, accompanied by an opinion disclaimer, or the disclaimer, "Prepared from the Books Without Audit," appearing prominently on each page of the financial statements.[10]

SAP #23 was intended to reduce misunderstandings between CPAs and users in two ways. First, the standard eliminated the

Table 2

Unaudited Financial Statements and Limited Procedure Engagements: 1961

| | *Unaudited Financial Statements* | *Limited Procedure Engagements* |
|---|---|---|
| Authoritative Body | Committee on Auditing Procedure | None |
| AICPA Standards | SAP #23 Clarification of Accountant's Report When Opinion is Omitted (Revised 1949) | None |
| Engagement Tasks | Prepare financial statements | Review interim financial statements by applying limited auditing procedures |
| Report Forms | Financial statements on plain paper without CPA comments, or<br>Financial statements on CPA's letterhead with "Prepared from Books Without Audit" marked on each page of statements, or<br>Financial statements on CPA's letterhead with report of findings and opinion disclaimer | Comfort letter |

issuance of unaudited financial statements on the CPA's letterhead without comments. Second, the standard required the CPA's disclaimer as a warning to third parties that the statements were not audited. Two problems, however, were not resolved by SAP #23. One problem was that CPAs continued to issue financial statements on plain paper without comments. Users of these statements may have been uncertain about the degree of CPA association with and responsibilities for such statements.[11] The second problem was that users may not have understood the meaning of the CPA's opinion disclaimer. For example, bankers may have attributed to the statements audit-type assurances about the reliability of the financial statements, merely because a CPA was associated with the statements.[12]

### *Limited Procedure Engagements*

During this period, CPAs practiced a limited procedure engagement that was similar to today's review engagement under SSARS #1. The limited procedure engagement was a review of interim financial statements. In carrying out this review engagement, the CPA read minutes of meetings, read the interim financial statements, and performed analytical and inquiry procedures. The CPA reported the results of this review by issuing a "comfort letter," which was addressed to the client but normally used by underwriters. In this letter, the CPA provided limited assurance that nothing came to his attention during the review which would require modification of the unaudited financial statements.[13] Table 2 summarizes the authoritative bodies, AICPA standards, engagement tasks, and report forms which were in effect for limited procedure engagements at the end of 1961.

The review of interim financial statements created two problems for CPAs and users. One problem, shown in Table 2, was that the accounting profession provided neither procedural nor reporting guidance for CPAs who performed this review. As a result, CPAs were uncertain about what auditing procedures they should perform on these engagements.[14] Another problem was that users might have attributed audit-type assurances to the financial statements because CPAs performed certain auditing procedures on the statements.[15]

## *Standards for Unaudited Financial Statements: 1962-1976*

Despite continued emphasis on the CPA's attest function, in 1962 the accounting profession began to issue reporting standards with respect to CPA association with unaudited financial statements. However, the new standards did not provide procedural or reporting guidance for CPAs who performed limited auditing procedures on unaudited financial statements. This situation contributed to communication problems between CPAs and users concerning the CPA's association with unaudited financial statements and limited procedure engagements.

### *Unaudited Financial Statements*

The AICPA issued two standards and a guide regarding CPA association with unaudited financial statements. These were: Statement on Auditing Procedure No. 32 (SAP #32); Statement on Auditing Procedure No. 38 (SAP #38); and *Guide for Engagements of CPAs to Prepare Unaudited Financial Statements (Guide).*

SAP #32 was the first AICPA standard to provide reporting guidance regarding CPA association with unaudited financial statements. Major points of this standard included:

1. Definition of unaudited financial statement engagements as the performance of no auditing procedures or insignificant auditing procedures.
2. Requirement that the CPA report on unaudited financial statements by marking "Unaudited" on each page of the statements, with or without other CPA comments.
3. Recommendation that the CPA report on unaudited financial statements by issuing an opinion disclaimer when the unaudited statements were not accompanied by other CPA comments.
4. Requirement that the CPA report on unaudited financial statements by issuing an opinion disclaimer when the statements were accompanied by other CPA comments.[16]

SAP #38 was the first AICPA standard to separately consider unaudited financial statements. Major provisions of this standard accomplished the following:

1. Distinguished an accounting service from an audit engagement.
2. Described an unaudited financial statement engagement as an accounting service. An accounting service included assistance in adjusting and closing the general books, and preparation of or assistance in the preparation of financial statements.
3. Described unaudited financial statement engagements as the performance of no auditing procedures, or the performance of insufficient auditing procedures to permit the expression of an audit opinion.
4. Required CPA association with plain paper financial statements.
5. Required the CPA to report on unaudited financial statements by issuing an opinion disclaimer and marking "Unaudited" on each page of the statements.
6. Permitted CPA association with general-use and internal-use unaudited financial statements. General-use unaudited statements, which required appropriate disclosures, were distributed to third parties. Internal-use unaudited statements, which did not require appropriate disclosures, were not distributed to third parties. The CPA reported on internal-use statements by adding a disclosure disclaimer to the report.[17] Table 3 summarizes the authoritative bodies, AICPA standards, engagement tasks, and report forms which were in effect for these two unaudited financial statement engagements in 1976 at the end of the time period under consideration.

Table 3

Unaudited Financial Statements: 1976

| | *Internal-Use Unaudited Financial Statements* | *General-Use Unaudited Financial Statements* |
|---|---|---|
| Authoritative Body | Auditing Standards Executive Committee | Auditing Standards Executive Committee |
| AICPA Standards | SAP #32 Qualifications and Disclaimers (1962)<br>SAP #38 Unaudited Financial Statements (1967)<br>SAS #1 Statements on Auditing Standards (1972) | SAP #32 Qualifications and Disclaimers (1962)<br>SAP #38 Unaudited Financial Statements (1967)<br>SAS #1 Statements on Auditing Standards (1972) |
| Engagement Tasks | Prepare financial statements without applying auditing procedures for internal-use without appropriate disclosures | Prepare financial statements by applying limited auditing procedures for general-use with appropriate disclosures |
| Report Forms | Financial statements on plain paper or CPA's letterhead with "Unaudited" marked on each page of statements, and opinion disclaimer<br>Disclosure disclaimer | Financial statements on plain paper or CPA's letterhead with "Unaudited" marked on each page of statements, and opinion disclaimer |

Because of legal uncertainties pertaining to the CPA's responsibilities for unaudited financial statements, the AICPA appointed a task force in 1972 to offer guidance with respect to unaudited statements. In 1975, the task force issued *Guide for Engagements of CPAs to Prepare Unaudited Financial Statements,* which improved procedural and reporting guidelines for CPAs who were associated with unaudited financial statements.[18]

Although SAP #32, SAP #38, and the *Guide* explained the CPA's engagement and reporting responsibilities with respect to unaudited financial statements, several problems remained. These included uncertainty among CPAs about the extent of auditing procedures to perform on unaudited financial statements, unauthorized distribution of internal-use financial statements to users, and confusion by users regarding limited scope opinion disclaimers and unaudited financial statement opinion disclaimers.

The first problem of association with unaudited financial statements was that CPAs were uncertain about the extent of auditing procedures to perform on unaudited statements. Two factors, litigation and recommendations made by accounting academicians and practitioners, contributed to this uncertainty. First, several legal cases (for example, see *1136 Tenants' Corporation v. Max Rothenberg and Company*) encouraged CPAs to adopt one of two approaches concerning the extent of auditing procedures to perform on unaudited financial statements. Some CPAs believed that performing limited auditing procedures on unaudited financial statements would provide clients with a satisfactory level of service and preclude the CPA's association with substandard statements. This approach risked that users and the courts would attribute audit-type assurances to the reliability of the statements.[19] In recognition of this approach, two surveys indicated that many CPAs performed limited auditing procedures on unaudited financial statements, and that many users perceived that CPAs performed these procedures.[20] Other CPAs believed that no auditing procedures should be performed on unaudited statements to prevent users and the courts from perceiving audit-type assurances about the reliability of the statements. Holders of this view contended that users and the courts would attribute audit-type assurances to the statements merely because a CPA was associated with the statements.[21]

In addition to litigation, the recommendations of a number of accounting academicians and practitioners contributed to CPA uncertainty about the extent of auditing procedures to perform on unaudited financial statements. Many academicians and practitioners recommended that the accounting profession issue guidelines which would standardize these practices and enable CPAs to express limited assurances about the reliability of the statements. Articles of recommendation came from Chan in 1968, Saxe in 1972, Terrell in 1973, Guy and Mann in 1973, Olson in 1975, and Meddaugh in 1977.[22] The AICPA, however, neither recognized nor provided procedural or reporting guidelines for CPAs who performed these limited procedure engagements. They were performed under the guise of unaudited financial statements and reported on by opinion disclaimers and the marking of "Unaudited" on each page of the statements.[23]

Another problem of association with unaudited financial statements was the unauthorized distribution of internal-use unaudited statements to third parties. For example, a survey found that 79% of responding bankers reported at least some use of internal-use unaudited financial statements. This unauthorized distribution indicated that businesses either misunderstood or intentionally disregarded the distribution limitation. In addition, it was possible that users may have attributed unwarranted reliability to these statements, which lacked the appropriate disclosures.[24]

A final problem of association with unaudited financial statements was that third parties might not have understood the differences between a limited scope opinion disclaimer and an unaudited financial statement opinion disclaimer.[25] The former disclaimer referred to a CPA's audit engagement in which restrictions on auditing procedures precluded an audit opinion. The latter disclaimer referred to the CPA's association with unaudited financial statements in which no auditing procedures or only limited auditing procedures were performed by the CPA.

*Limited Procedure Engagements*

CPAs during this period performed two types of limited procedure engagements which were similar to review engagements under SSARS #1. These were applying limited auditing procedures to unaudited financial statements and reviewing interim financial statements. Table 4 summarizes the authoritative bodies, AICPA standards, engagement tasks, and report forms which were in effect for these limited procedure engagements at the end of 1976. Engagements in which CPAs performed limited auditing procedures on unaudited statements have already been discussed in the preceding section of this article. As for reviews of interim financial statements, the AICPA intended to reduce misunderstandings between CPAs and users by issuing two standards. These were Statement on Auditing Standards No. 10 (SAS #10), and Statement on Auditing Standards No. 13 (SAS #13). As part of his review of interim financial statements, SAS #10 required the CPA to read the minutes of meetings, read the interim statements, and perform analytical and inquiry procedures.[26] SAS #13 required the CPA to report on the results of this review by stating the objectives of the review, issuing an opinion disclaimer, and marking "Unaudited" on each page of the statements.[27]

The increasing frequency of limited procedure engagements created several problems for CPAs and users. One problem was the difficulty CPAs and users had in understanding differences among unaudited financial statements, limited procedure engagements, and audits. An accounting practitioner noted this problem:

Table 4

Limited Procedure Engagements: 1976

| | *General-Use Unaudited Financial Statements* | *Interim Financial Statements* |
|---|---|---|
| Authoritative Body | Auditing Standards Executive Committee | Auditing Standards Executive Committee |
| AICPA Standards | SAP #32 Qualifications and Disclaimers (1962) | SAS #10 Limited Review of Interim Financial Information (1975) |
| | SAP #38 Unaudited Financial Statements (1967) | SAS #13 Reports on Limited Review of Interim Financial Information (1976) |
| | SAS #1 Statements on Auditing Standards (1972) | |
| Engagement Tasks | Review financial statements by applying limited auditing procedures | Review financial statements by applying limited auditing procedures |
| Report Forms | Financial statements on plain paper or CPA's letterhead with "Unaudited" marked on each page of statements, and opinion disclaimer | Review report with "Unaudited" marked on each page of statements, and opinion disclaimer |

> The auditor might keep in mind that the difference between significantly audited, partially audited, and unaudited has not been sufficiently defined by the Institute's Auditing Procedure Committee and is often dependent upon the type of engagement and intent of the auditor and client.[28]

Another problem was that the CPA reported on these engagements by issuing an opinion disclaimer on the financial statements. As a result, the CPA might have achieved some assurances about the financial statements but expressed no assurances in his report. Also, users might have perceived some assurances about the statements in spite of the CPA's denial of assurances.

### *Compilations and Reviews*

Users of nonpublic business financial statements and CPAs recognized the problems associated with unaudited financial statements and limited procedure engagements. For example, users were concerned that AICPA auditing standards did not enable CPAs to express limited assurances about the financial statements as a result of limited procedure engagements. Also, CPAs were concerned that these standards did not provide procedural or reporting guidelines for CPAs who performed limited procedure engagements.[29] At the same time, two AICPA spokesmen challenged the CPA's attest function by advocating an assurance level approach. They explained the need for an assurance level appropriate to the CPA's report on a limited procedure engagement:

> What is needed are forms of assurance that are less than that ascribed to an opinion audit but greater than those ascribed to unaudited financial statements.[30]
>
> . . . the realities of the business world and increasing complexity of professional standards have created a need for a new form of assurance that is less than expressed as a result of an audit made in accordance with generally accepted auditing standards but certainly greater than that included in the present disclaimer on unaudited financial statements.[31]

The AICPA responded to these concerns and other problems associated with unaudited financial statements and limited procedure engagements by developing a standard for compilations and reviews. Significant events in this development are described below.

In 1975, the AICPA established the Accounting and Review Services Committee (ARSC) as a subcommittee of the Auditing Standards Executive Committee (AudSEC). After two years, the ARSC became a senior technical committee with authority to issue standards for accounting and review services rendered by CPAs on non-public business financial statements. At this point, the ARSC issued four statements which provided directions for its work. Gregory cites them this way:

1. Auditing and accounting services are distinguishable, both conceptually and pragmatically.

2. Financial statement users and CPAs should recognize that providing accounting services in connection with unaudited statements is an acceptable and useful service.

3. The complexity of auditing standards creates a need for lower cost alternatives for CPA association with financial statements.

4. The accounting profession needs specific accounting and review guidance, in the form of standards.[32]

Following these statements, the ARSC issued an exposure draft of its first standard, *Compilation and Review of Financial Statements*. This proposed standard included the following major provisions:

1. Recognition that businesses need accounting services, compilations, and reviews.
2. Definition of compilations and reviews as the two accounting services for unaudited financial statements.
3. Identification of standards and procedures for compilations and reviews.
4. Requirement that the CPA report on a compilation by issuing a compilation report.
5. Requirement that the CPA report on a review by issuing a review report.
6. Requirement that the CPA express limited assurance in the review report.
7. Permission for third parties to use compiled financial statements which omit substantially all disclosures.[33]

After this exposure draft was reviewed, the ARSC in 1978 issued SSARS #1. In 1979, the AICPA modified Rule 204 of its *Code of Professional Ethics* in order to enforce the standards issued by the ARSC. Rule 204, as modified, required CPAs to comply with or justify departures from ARSC standards.[34]

*Compilations*

Since its enactment in 1978, SSARS #1 has enabled CPAs to perform two types of compilation engagements on the financial statements of nonpublic businesses. One type is a compilation of financial statements which omits substantially all disclosures. This compilation is similar to the former internal-use unaudited statements, which did not require appropriate disclosures. The other type is a compilation of financial statements which includes substantially all disclosures. This compilation engagement resembles the former general-use unaudited financial statement engagement in which CPAs performed no auditing procedures on the statements. Table 5 summarizes the authoritative bodies, AICPA standards, engagement tasks, and report forms which pertain to these two types of compilations.

The objective of both types of CPA compilations is to present management's representations in the form of financial statements without expressing any assurances about the statements. SSARS #1 requires the CPA to read the financial statements to consider whether the statements appear appropriate in form and free from

Table 5

Compilations and Reviews

| | *Compilations* | | *Reviews* |
|---|---|---|---|
| | *Compilations which omit substantially all disclosures* | *Compilations which include substantially all disclosures* | |
| Authoritative Body | Accounting and Review Services Committee | Accounting and Review Services Committee | Accounting and Review Services Committee |
| AICPA Standards | SSARS #1 Compilation and Review of Financial Statements (1978) | SSARS #1 Compilation and Review of Financial Statements (1978) | SSARS #1 Compilation and Review of Financial Statements (1978) |
| Engagement Tasks | Compile financial statements which omit substantially all disclosures | Compile financial statements which include substantially all disclosures | Review financial statements by applying limited auditing procedures |
| Report Forms | Compilation report with "See Accountant's Compilation Report" marked on each page of the financial statements<br>Disclosure disclaimer | Compilation report with "See Accountant's Compilation Report" marked on each page of the financial statements | Review report with "See Accountant's Review Report" marked on each page of the financial statements |

material errors.[35] The CPA is required to communicate the results of a compilation by issuing a compilation report and marking each page of the financial statements with a reference such as "See Accountant's Compilation Report."[36] An example of a compilation report provided by the ARSC follows:

> We have compiled the accompanying balance sheet of XYZ Company as of December 31, 19xx, and the related statements of income, owner's capital, and changes in financial position 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. 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.[37]

If the financial statements omit substantially all disclosures, then SSARS #1 requires that the CPA add a third paragraph to the compilation report:

> 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 changes in financial position. Accordingly, these financial statements are not designed for those who are not informed about such matters.[38]

Further, if the CPA is not independent in a compilation engagement, then SSARS #1 requires the CPA to add the following sentence to the compilation report, "We are not independent with respect to XYZ Company."[39]

### *Reviews*

The enactment of SSARS #1 also established the current definition of a review as a limited procedure engagement on the financial statements of nonpublic businesses. A review is similar to a limited procedure engagement dealing with both unaudited and interim financial statements. In both reviews and limited procedure engagements, the CPA is required to read the financial statements and to perform analytical and inquiry procedures.[40] Table 5 summarizes the authoritative bodies, AICPA standards, engagement tasks, and report forms which pertain to reviews.

The objective of a review by a CPA is to perform certain auditing procedures which provide the CPA with a reasonable basis for expressing limited assurance that no material modifications should be made to the statements in order for them to be in conformity with generally accepted accounting principles.[41] The CPA is required to communicate the results of a review by issuing a review report and marking each page of the financial statements with a reference such as "See Accountant's Review Report."[42] An example of a review report provided by the ARSC follows:

> We have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19xx, and the related statements of income, owner's capital, and changes in financial position 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 the management.
>
> A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination 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 statements in order for them to be in conformity with generally accepted accounting principles.[43]

This review report assumes that the financial statements include appropriate disclosures and that the CPA is independent.

## *Conclusion*

This article chronologically reviewed significant events in the development of the AICPA standard for compilations and reviews, SSARS #1. This standard developed in response to CPA-user problems associated with unaudited financial statements and limited procedure engagements. Several of the major problems were:

1. Uncertainty by users about the extent of differences in CPA

work procedures and in CPA reports among unaudited financial statements, limited procedure engagements, and audits.

2. Uncertainty by users about the extent of assurances either intended or achieved by CPAs when CPAs report on unaudited financial statements or limited procedure engagements by issuing an opinion disclaimer.

3. Perceptions by users of audit-type assurances about unaudited financial statements merely because a CPA is associated with the statements.

4. Uncertainty by CPAs about the extent of auditing procedures to perform in unaudited financial statement engagements or limited procedure engagements.

SSARS #1 is intended to overcome these CPA-user problems with respect to the financial statements of nonpublic businesses. However, it remains to be seen whether these historical problems associated with unaudited financial statements and limited procedure engagements recur with respect to compilations and reviews. Given this historical perspective, perhaps the accounting profession should recognize potential CPA-user problems regarding compilations and reviews. Several of these possible issues may be:

1. Will users understand the extent of differences in CPA work procedures and in CPA reports among compilations, reviews, and audits?

2. Will users understand the extent of assurances either intended or achieved by CPAs when CPAs report on compiled or reviewed financial statements?

3. Will users perceive audit-type assurances about financial statements accompanied by either the CPA's compilation or review reports?

4. Will different CPAs perform similar work procedures in compilation engagements? Will different CPAs perform similar work procedures in review engagements?

5. Will CPAs perform the compilation and review work procedures which are in accordance with those recommended by SSARS #1?

FOOTNOTES

[1]Accounting and Review Services Committee, (1979).
[2]Kimball, pp. 268-269.
[3]Bell, pp. 116-117.
[4]Committee on Auditing Procedure, (1939).
[5]Montgomery, pp. 694-695.
[6]Montgomery, pp. 694-695.
[7]Montgomery, pp. 694-695. Carey, p. 195.

[8]Stempf, p. 443.
[9]Committee on Auditing Procedure, (1949).
[10]Committee on Auditing Procedure, (1949).
[11]Nest, pp. 63-64. Turlington, p. 30.
[12]Seidman, p. 29.
[13]Prest, p. 50.
[14]Prest, p. 52.
[15]Prest, p. 52.
[16]Committee on Auditing Procedure, (1963).
[17]Committee on Auditing Procedure, (1967).
[18]Task Force on Unaudited Financial Statements, (1975).
[19]Terrell, p. 58. Guy and Winters, p. 51.
[20]Winters, p. 32. Guy and Winters, p. 51.
[21]Saunders, p. 26. Guy and Winters, p. 51.
[22]Chan, p. 188. Saxe, p. 461. Terrell, pp. 54-60. Guy and Mann, pp. 557-558. Olson, pp. 56-57. Meddaugh, p. 78.
[23]*AICPA Codification of Statements on Auditing Standards,* (1977), Sec. 516.04.
[24]Winters, p. 30.
[25]Carmichael, (1971), pp. 74-75.
[26]*AICPA Codification of Statements on Auditing Standards,* (1977), Sec. 720.10.
[27]*AICPA Codification of Statements on Auditing Standards,* (1977), Sec. 519.04.
[28]Chan, p. 188.
[29]Kelley, p. 19.
[30]Carmichael, (1974), p. 69.
[31]Gregory, p. 61.
[32]Gregory, p. 63.
[33]Kelley, p. 19.
[34]*AICPA Code of Professional Ethics,* (1979), Sec. 204.01 and Appendix D.
[35]Accounting and Review Services Committee, (1979), par. 13.
[36]Accounting and Review Services Committee, (1979), pars. 4, 14, 16.
[37]Accounting and Review Services Committee, (1982), par. 2.
[38]Accounting and Review Services Committee, (1979), par. 21.
[39]Accounting and Review Services Committee, (1979), par. 22.
[40]Accounting and Review Services Committee, (1979), par. 27.
[41]Accounting and Review Services Committee, (1979), par. 4.
[42]Accounting and Review Services Committee, (1979), pars. 32, 34.
[43]Accounting and Review Services Committee, (1979), par. 35.

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