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Proposed statement on standards for accounting and review services, Omnibus -- 2002; Omnibus -- 2002; Exposure draft (American Institute of Certified Public Accountants), 2002, Aug. 1

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

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EXPOSURE DRAFT

PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

OMNIBUS—2002

August 1, 2002

**Prepared by the AICPA Accounting and Review Services Committee
for comment from persons interested in review and compilation issues**

**Comments should be received by October 1, 2002, and addressed to Sherry Boothe, Audit
and Attest Standards, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775 or
via the Internet to sboothe@aicpa.org**

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August 1, 2002

Accompanying this letter is an exposure draft, approved by the Accounting and Review Services Committee (ARSC), of a proposed Statement on Standards for Accounting and Review Services.

A summary of significant provisions of the proposed Statement accompanies this letter.

Comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the ARSC's consideration of responses, comments should refer to specific paragraphs and include supporting reasons for each suggestion or comment.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after November 1, 2002, for one year. Responses should be sent to Sherry Boothe, Audit and Attest Standards, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775 in time to be received by October 1, 2002. Responses also may be sent by electronic mail to sboothe@aicpa.org.

Sincerely,

Diane S. Conant
Chair
Accounting and Review Services Committee

Charles E. Landes
Director
Audit and Attest Standards

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(2001–2002)**

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SUMMARY

Periodically, the Accounting and Review Services Committee (ARSC) issues an Omnibus Statement. The Omnibus includes proposed revisions to existing Statements on Standards for Accounting and Review Services (SSARSs) that have been accumulated over a period of time. The proposed revisions due to the significance of the issues and cost benefit considerations do not in and of themselves warrant the issuance of separate standards. Therefore, an Omnibus is issued.

WHY ISSUED AND WHAT IT DOES

- The auditing literature allows an accountant who may be associated with financial statements of a public company, but has not audited or reviewed such statements, to state that he or she has not audited the unaudited information and includes example report wording. This guidance is also appropriate for compilation and review engagements; however, SSARSs currently do not include example wording. This amendment will revise SSARS No. 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100.03), to include wording that may be appropriate under the circumstances.
- The accounting literature does not require the statement of retained earnings to be presented as a financial statement. Accounting Principles Board Opinion No. 12, *Omnibus Opinion—1967*, requires disclosure of a change in capital. This can be done by preparation of a separate statement in the notes to the financial statements or as part of another basic statement. In addition, the example reports currently do not refer to the statement of comprehensive income. This amendment will include two footnotes to SSARS No. 1 (AR sec. 100.14 and AR sec. 100.36), stating (1) the statement of retained earnings is not a required statement and, if not presented as a separate statement, reference in the compilation and review report is not needed and (2) if the statement of comprehensive income is presented, reference should be made in the appropriate paragraphs of the report.
- SSARSs currently do not specifically require a signature of the accounting firm or the accountant on a review or compilation report. This proposed amendment will revise SSARS No. 1 (AR sec. 100.11 and 100.33) to require a signature. The guidance in AR section 100.12 and 100.13 has been deleted and included in AR section 100.11; guidance in AR section 100.34 and 100.35 has been deleted and included in AR section 100.33.
- The current guidance found in SSARS No. 1 (AR sec. 100.29) requires the accountant to obtain a representation letter from management. The guidance is not specific about the content of the letter, the dating of the letter, and current management's responsibility regarding previous years. This amendment will require specific representations for the accountant to receive from management when performing a review engagement and will provide guidance on the dating of the letter and guidance regarding obtaining representations from current

management when they were not present during all periods covered by the accountant's report.

- SSARS No. 1 (AR sec. 100.44) includes the guidance on reporting for supplementary information. Currently the guidance is unclear with respect to separate reporting on supplementary information in a compilation engagement. This proposed amendment would explicitly allow for a separate report on supplementary information in a compilation engagement, consistent with guidance on supplemental information in a review report.
- SSARSs currently do not refer to the Statements on Quality Control Standards (SQCSs) and how those standards interact with SSARSs. The proposed amendment will clarify that although an effective quality control system is conducive to compliance with SSARSs, deficiencies in or noncompliance with a firm's quality control system do not, in and of themselves, indicate that an engagement was not performed in accordance with the applicable professional standards. This amendment would be included after the last section of SSARS No. 1 (before the Effective Date).
- SSARS No. 4, *Communications Between Predecessor and Successor Accountants* (AICPA, *Professional Standards*, vol. 2, AR sec. 400), provides guidance on communications between accountants when the successor accountant decides to communicate with the predecessor regarding acceptance of an engagement. This amendment defines predecessor and successor accountants, provides guidance regarding acceptance of an engagement, suggests inquiries the successor accountant may decide to ask the predecessor accountant, and includes an example successor accountant acknowledgment letter, which the predecessor may want to use in connection with granting access to the working papers.

HOW IT AFFECTS EXISTING STANDARDS

The proposed amendments would revise SSARS No. 1 and SSARS No. 4.

**PROPOSED STATEMENT ON STANDARDS FOR
ACCOUNTING AND REVIEW SERVICES
OMNIBUS—2002**

1. The auditing literature allows an accountant who may be associated with financial statements of a public company, but has not audited or reviewed such statements, to state that he or she has not audited or reviewed the unaudited information and includes example report wording. This guidance is also appropriate for compilation and review engagements; however, Statements on Standards for Accounting and Review Services (SSARs) currently do not include example wording. This amendment will revise SSARS No. 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100.03) to include wording that may be appropriate under the circumstances. New language is shown in boldface italics; deleted language is shown by strikethrough.

.03 An accountant should not consent to the use of his or her name in a document or written communication containing unaudited financial statements of a nonpublic entity unless (a) the accountant has compiled or reviewed the financial statements ***in compliance with the provisions of this Statement**** and ~~a 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 the accountant assumes no responsibility for them. ***For example, the indication may be worded as follows:***

The accompanying balance sheet of X Company as of December 31, 20X1, the related statements of income, and cash flows for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

If an accountant becomes aware that his or her name has been used improperly in any client-prepared document containing unaudited financial statements, the accountant should advise the client that the use of his or her name is inappropriate and should consider what other actions might be appropriate, including consultation with his or her attorney.

2. This amendment is effective upon issuance.

3. The accounting literature does not require the statement of retained earnings to be presented as a financial statement. Accounting Principles Board Opinion No. 12, *Omnibus Opinion—1967*, requires disclosure of a change in capital. This can be done by preparation of a separate statement in the notes to the financial statements or as part of another basic statement. In addition, the example reports currently do not refer to the statement of comprehensive income. This amendment will include two footnotes to

* For purposes of this exposure draft, the term *this Statement* refers to Statements on Standards for Accounting and Review Services.

SSARS No. 1 (AR sec. 100.14 and AR sec. 100.36), stating (a) the statement of retained earnings is not a required statement and, if not presented as a separate statement, reference in the compilation and review report is not needed and (b) if the statement of comprehensive income is presented, reference should be made in the appropriate paragraphs of the report. New language is shown in boldface italics; deleted language is shown by strikethrough.

.14 The following form of standard report is appropriate for a compilation:¹²

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20X~~1~~, and the related statements of income, retained earnings,¹³ 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.

¹² *If the statement of comprehensive income is included, the first paragraph of the report should be modified.*

¹³ *Accounting Principles Board (APB) Opinion No. 12, Omnibus Opinion–1967, requires disclosure of a change in capital. This can be done by preparation of a separate statement in the notes to the financial statements or as part of another basic statement. If the accountant does not include a statement of retained earnings as a separate statement, reference in the compilation report is not needed.*

Subsequent footnotes are to be renumbered.

~~.36~~ .33 The following form of standard report is appropriate for a review:¹⁷²⁰

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, ~~1920~~X~~1~~, and the related statements of income, retained earnings,²¹ 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.

¹⁷²⁰ See paragraphs .40 through .42 for the accountant's responsibilities *with respect to when he is aware of* departures from generally accepted accounting principles.

If the statement of comprehensive income is included, the first paragraph of the report should be modified.

²¹ *APB Opinion No. 12 requires disclosure of a change in capital. This can be done by preparation of a separate statement in the notes to the financial statements or as part of another basic statement. If the accountant does not include a statement of retained earnings as a separate statement, reference in the review report is not needed.*

Subsequent footnotes are to be renumbered.

4. This amendment will be effective upon issuance.

5. SSARSs currently do not specifically require a signature of the accounting firm or the accountant on a review or compilation report. This proposed amendment will revise SSARS No. 1 (AR sec. 100.11 and 100.33) to require a signature. The guidance in AR

section 100.12 and 100.13 has been deleted and included in AR section 10011; guidance in AR section 100.34 and 100 .35 has been deleted and included in AR section 100.33. New language is shown in boldface italics; deleted language is shown by strikethrough.

.11 When the accountant is engaged to report on compiled financial statements or submits financial statements that are reasonably expected to be used by a third party, the financial statements should be accompanied by a report. ***The basic elements of the report are as follows:*** ~~stating that—~~

- a. A ***statement that 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 ***statement that a*** compilation is limited to presenting in the form of financial statements information that is the representation of management (owners).
- c. ***A statement that*** ~~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.
- d. ***A signature of the accounting firm or the accountant as appropriate. For example, the signature could be manual, stamped, electronic, or typed.***
- e. ***The date of the compilation report. The date of completion of the compilation should be used as the date of the accountant's report.***
- f. ***A reference on each page of the financial statements compiled by the accountant, such as "See Accountant's Compilation Report."***

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

~~.12 The date of completion of the compilation should be used as the date of the accountant's report.~~

~~.13 Each page of the financial statements compiled by the accountant should include a reference, such as "See Accountant's Compilation Report."~~

Subsequent paragraph are to be renumbered.

~~.33~~ **.32** Financial statements reviewed by an accountant should be accompanied by a report. ***The basic elements of the report are as follows:*** ~~stating that—~~

- a. A ***statement that a*** review ***has been*** ~~was~~ performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

- b. ~~A statement that a~~ All information included in the financial statements is the representation of the management (owners) of the entity.
- c. A **statement that a** review consists principally of inquiries of company personnel and analytical procedures applied to financial data.
- d. A **statement that 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. ~~A statement that t~~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 ~~the~~ his report.
- f. **A signature of the accounting firm or the accountant as appropriate. For example, the signature could be manual, stamped, electronic, or typed.**
- g. **The date of the review report. The date of the completion of the accountant's review procedures should be used as the date of the accountant's report.**
- h. **A reference on each page of the financial statements reviewed by the accountant, such as "See Accountant's Review 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 ~~the~~ his report.

~~.34 The date of completion of the accountant's inquiry and analytical procedures should be used as the date of his report.~~

~~.35 Each page of the financial statements reviewed by the accountant should include a reference such as "See Accountant's Review Report."~~

Subsequent paragraphs are to be renumbered.

6. This amendment is effective upon issuance.

7. The current guidance found in SSARS No. 1 (AR sec. 100.29) requires the accountant to obtain a representation letter from management. The guidance is not specific about the content of the letter, the dating of the letter, and current management's responsibility regarding previous years. This amendment will require specific representations for the accountant to receive from management when performing a review engagement and will provide guidance on the dating of the letter and guidance regarding obtaining representations from current management when they were not present during all periods covered by the accountant's report. New language is shown in boldface italics; deleted language is shown by strikethrough.

~~29~~.27 **Written representations from management should be obtained for all financial statements and periods covered by the accountant's report. For example, if comparative financial statements are reported on, the representations obtained at the completion of the most recent review should address all periods being reported on. The specific written representations obtained by the accountant will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. In connection with a review of financial statements presented in accordance with generally accepted accounting principles, specific representations should relate to the following matters:**¹⁹

- a. **Management's acknowledgment of its responsibility for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles**
- b. **Management's belief that the financial statements are fairly presented in conformity with generally accepted accounting principles**
- c. **Management's full and truthful response to all inquiries**
- d. **Completeness of information**
- e. **Information concerning subsequent events**

The representation letter ordinarily should be tailored to include additional appropriate representation from management relating to matters specific to the entity's business or industry. An illustrative representation letter is presented in Appendix F.

¹⁹**Specific representations also are applicable to financial statements presented in conformity with a comprehensive basis of accounting other than generally accepted accounting principles.**

.28 The written representations should be addressed to the accountant. Because the accountant is concerned with events occurring through the date of the report that may require adjustment to or disclosure in the financial statements, the representations should be made as of a date no earlier than the date of the accountant's report. The letter should be signed by those—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 **or others with equivalent positions in the entity should sign the representation letter. An example of a representation letter is presented in Appendix D. **If current management was not present during all periods covered by the accountant's report, the accountant should nevertheless obtain written representations from current management on all such periods.****

Subsequent paragraphs are to be renumbered.

8. This amendment is effective for review reports dated January 1, 2003, or after. Early application is permissible.

9. SSARS No. 1 (AR sec. 100.44) includes the guidance on reporting for supplementary information. Currently the guidance is unclear with respect to separate reporting on supplementary information in a compilation engagement. This proposed amendment would explicitly allow for a separate report on supplementary information in a compilation engagement, consistent with guidance on supplemental information in a review report. New language is shown in boldface italics; deleted language is shown by strikethrough.

~~.44~~ **.41** 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 **or she** is taking with respect to such information.

- When the accountant has reviewed the basic financial statements, ~~this may be accomplished by an explanation~~ **should be included** in ~~the~~ **his** review report, or in a separate report on the other data. **The report should state** 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~~ **the** compilation report should **refer to** ~~also include~~ the other data **or the accountant can issue a separate report on the other data.**

10. This amendment is effective upon issuance.

11. SSARSs currently do not refer to the Statements on Quality Control Standards (SQCSs) and how those standards interact with SSARSs. The following amendment will clarify that although an effective quality control system is conducive to compliance with SSARSs, deficiencies in or noncompliance with a firm's quality control system do not, in and of themselves, indicate that an engagement was not performed in accordance with the applicable professional standards. This amendment would be included after the last section of SSARS No. 1 (before the Effective Date). New language is shown in boldface italics.

Relationship of Statements on Standards for Accounting and Review Services to Quality Control Standards

An accountant is responsible for compliance with Statements on Standards for Accounting and Review Services (SSARSs) in a review or compilation engagement. Rule 202 of the Code of Professional Conduct of the American Institute of Certified Public Accountants requires members to comply with such standards when associated with reviewed or compiled financial statements.

An accountant has the responsibility to adopt a system of quality control in conducting an accounting practice.²³ Thus, a firm should establish quality control policies and procedures to provide it with reasonable assurance that its personnel comply with SSARS in its review and compilation engagements. The nature and extent of a firm's quality control policies and procedures depend on factors such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations.

SSARSs relate to the conduct on individual review and compilation engagements; Statements on Quality Control Standards (SQCSs) relate to the conduct of a firm's accounting practice. Thus, SSARSs and SQCSs are related, and the quality control policies and procedures that a firm adopts may affect both the conduct of an individual engagement and the firm's accounting practice as a whole. However, deficiencies in or instances of noncompliance with a firm's quality control policies and procedures do not, in and of themselves, indicate that a particular review or compilation engagement was not performed in accordance with SSARSs.

²³ *The elements of quality control are identified in Statement on Quality Control Standards (SQCS) No. 2, System of Quality Control for a CPA Firm's Accounting and Auditing Practice (AICPA, Professional Standards, vol. 2, QC sec. 20). A system of quality control is broadly defined as a process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality.*

12. This amendment is effective upon issuance,

13. SSARS No. 4, *Communications Between Predecessor and Successor Accountants* (AICPA, *Professional Standards*, vol. 2, AR sec. 400), provides guidance on communications between accountants when the successor accountant decides to communicate with the predecessor regarding acceptance of an engagement. This amendment defines predecessor and successor accountants, provides guidance regarding acceptance of an engagement, suggests inquiries the successor accountant may decide to ask the predecessor accountant, and includes an example successor accountant acknowledgment letter, which the predecessor may want to use in connection with granting access to the working papers. New language is shown in boldface italics; deleted language is shown by strikethrough.

.01 This statement provides guidance ***on communications between to a predecessor and*** successor accountant ***when the successor accountant*** who decides to communicate with ***the*** a predecessor accountant regarding acceptance of an engagement to compile or review the financial statements of a nonpublic entity.⁴ ~~It requires the predecessor accountant to respond promptly and fully in the event of such communications 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, 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.

⁴This statement amends SSARS 2 by deletion of footnote 8 in paragraph 16 of that statement.

.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 ***and is considering accepting the engagement or an accountant*** 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.~~

An accountant who (a) has reported on the most recent compiled or reviewed financial statements or was engaged to perform but did not complete a compilation or review of the financial statements, and (b) has resigned, declined to stand for reappointment, or been notified that his or her services have been, or may be, terminated.

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 ***or she*** may ***believe it to be necessary to obtain information that will assist in determining whether to accept the engagement. The successor accountant may consider making inquiries of***

the predecessor accountant ~~decide to do so, for example,~~ when circumstances such as the following exist:

- a. The information obtained about the prospective client and its management and principals is limited or appears to require special attention.
- b. The change in accountants takes place substantially after the end of the accounting period for which statements are to be compiled or reviewed.
- c. There have been frequent changes in accountants.

The successor accountant should bear in mind that the predecessor accountant and the client may have disagreed about accounting principles, procedures applied by the predecessor accountant, or similarly significant matters.

.04 **The successor accountant should request permission from the prospective client to make any inquiries of the predecessor accountant.** Except as permitted by the AICPA Code of Professional Conduct, an accountant is precluded from disclosing any confidential information obtained in the course of an ~~an~~ professional engagement **unless the client specifically** ~~without the consents of his client.~~ Accordingly, ~~if when~~ the successor accountant decides to communicate with the predecessor, ~~the successor accountant~~ he should request the client (a) to permit **the successor accountant** ~~him~~ to make inquiries of the predecessor accountant and (b) to authorize the predecessor accountant to respond fully to those inquiries.³¹ If the **prospective** client refuses to **permit the predecessor accountant to respond or limits the response**, ~~comply fully with this request,~~ the successor accountant should **inquire about** ~~consider~~ the reasons for, and **consider the** implications of, that refusal in connection with acceptance of the engagement.

³¹The successor accountant is not precluded from making these inquiries before making a proposal for the engagement.

.05 When the successor accountant decides to communicate with the predecessor ~~accountant,~~ **the** his inquiries may be oral or written. **The inquiries should be specific and reasonable regarding matters that will assist the successor accountant in determining whether to accept the engagement. Matters subject to inquiry** 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 **or similarly significant matters**, (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.~~ **knowledge of any fraud or illegal acts perpetrated within the client, and (e) the predecessor's understanding of the reason for the change of accountants.**

.06 The predecessor accountant should respond promptly and fully **to the inquiries**, on the basis of **known** 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 **accountant** decides, due to unusual circumstances⁴² such as impending, **threatened, or potential** litigation; **disciplinary proceedings; or other unusual circumstances**, not to respond fully **to the inquiries, the predecessor accountant** he should indicate that his **the** response is limited. The successor accountant should consider the reasons for, and implications of, such a response in connection with acceptance of the engagement.

⁴²Unpaid fees, as discussed in paragraph .087, are not considered to be an unusual circumstance for purposes of this paragraph; however, see paragraph .087.

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.

~~.078~~ The successor accountant also may wish to **review** obtain access to the predecessor's working papers.⁵³ In these circumstances, the successor **accountant** should request the client to authorize the predecessor **accountant** to allow such access. It is customary in such circumstances for the predecessor **accountant** to make himself **or herself** available to the successor **accountant** for consultation and to make available **for review** certain of his working papers. The predecessor **accountant** and successor should **determine which** agree on these working papers that are to be made available **for review** and **which** these that may be copied. Ordinarily, the predecessor **accountant** should provide the successor **accountant** 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 **the** his working papers.⁶⁴ **The predecessor accountant may decide to reach an understanding with the successor accountant about the use of the working papers.**⁵ Further, when more than one accountant is considering acceptance of an engagement, the predecessor **accountant** should not be expected to make himself **or herself** or his **or her** working papers available until the client has designated one of those accountants as the successor **accountant**.

⁵³Statement 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.

⁶⁴See Ethics Interpretation 501-1 for guidance on what constitutes an accountant's working papers.

⁵ **Before permitting access to the working papers, the predecessor accountant may wish to obtain a written communication from the successor accountant regarding the use of the working papers. Appendix A of AR section 400 contains an illustrative successor accountant acknowledgment letter.**

Successor Accountant's Use of Communications

~~.089~~ The successor accountant should not make reference to the report or work of a predecessor accountant in his **or her** own report, except as specifically permitted by SSARS **No. 2** or SAS No. 26 with respect to the financial statements of a prior period.

Financial Statements Reported on by Predecessor Accountant

~~.0940~~ If during **the** his engagement the successor accountant becomes aware of information that leads him **or her** to believe that financial statements reported on by the predecessor accountant may require revision, **the successor accountant** he should request **the** his client to communicate this information to the predecessor accountant. SSARS No. 1 (AR sec. 100.43) provides guidance to the predecessor accountant in determining an appropriate course of action.

.10 If the client refuses to communicate with the predecessor **accountant** or if the successor accountant is not satisfied with the predecessor **accountant's** course of action, the successor **accountant should evaluate (a) possible implications for the current engagement and (b) whether to resign from the engagement. Furthermore, the successor accountant may decide** would be well-advised to consult with his **legal counsel in determining an appropriate course of further action.** ~~attorney.~~

Appendix A Illustrative Successor Accountant Acknowledgment Letter

1. Statement on Standards for Accounting and Review Services No. 4, Communications Between Predecessor and Successor Accountants (AICPA, Professional Standards, vol. 2, AR sec. 400.07, footnote 6), states, "Before permitting access to the working papers, the predecessor accountant may wish to obtain a written communication from the successor accountant regarding the use of the working papers." The following letter is presented for illustrative purposes only and is not required by professional standards.

**[Date]
[Successor Accountant]
[Address]**

We have previously [reviewed or compiled], in accordance with Statements on Standards for Accounting and Review Services the December 31, 20X1, financial statements of ABC Enterprises (ABC). In connection with your [review or compilation] of ABC's 20X2 financial statements, you have requested access to our working papers prepared in connection with that engagement. ABC has authorized our firm to allow you to review those working papers.

Our [review or compilation], and the working papers prepared in connection therewith, of ABC's financial statements were not planned or conducted in contemplation of your [review or compilation]. Therefore, items of possible interest to you may not have been specifically addressed. Our use of professional judgment

for the purpose of this engagement means that matters may have existed that would have been assessed differently by you. We make no representation about the sufficiency or appropriateness of the information in our working papers for your purposes.

We understand that the purpose of your review is to obtain information about ABC and our 20X1 results to assist you in your 20X2 engagement of ABC. For that purpose only, we will provide you access to our working papers that relate to that objective.

Upon request, we will provide copies of those working papers that provide factual information about ABC. You agree to subject any such copies or information otherwise derived from our working papers to your normal policy for retention of working papers and protection of confidential client information. Furthermore, in the event of a third-party request for access to your working papers prepared in connection with your (reviews or compilations) of ABC, you agree to obtain our permission before voluntarily allowing any such access to our working papers or information otherwise derived from our working papers, and to obtain on our behalf any releases that you obtain from such third party. You agree to advise us promptly and provide us a copy of any subpoena, summons, or other court order for access to your working papers that include copies of our working papers or information otherwise derived therefrom.

Please confirm your agreement with the foregoing by signing and dating a copy of this letter and returning it to us.

Very truly yours,

[Predecessor Accountant]

By: _____

Accepted:

[Successor Accountant]

By: _____ Date: _____

Even with the client's consent, access to the predecessor accountant's working papers may still be limited. Experience has shown that the predecessor accountant may be willing to grant broader access if given additional assurance concerning the use of the working papers. Accordingly, the successor accountant might consider agreeing to the following limitations on the review of the predecessor accountant's working papers in order to obtain broader access:

- The successor accountant will not comment, orally or in writing, to anyone as a result of the review about whether the predecessor accountant's engagement was performed in accordance with Statements on Standards for Accounting and Review Services.**

- ***The successor accountant will not provide expert testimony or litigation support services or otherwise accept an engagement to comment on issues relating to the quality of the predecessor accountant's engagement.***

The following paragraph illustrates the above:

Because your review of our working papers is undertaken solely for the purpose described above and may not entail a review of all our working papers, you agree that (1) the information obtained from the review will not be used by you for any other purpose, (2) you will not comment, orally or in writing, to anyone as a result of that review about whether our engagement was performed in accordance with Statements on Standards for Accounting and Review Services, (3) you will not provide expert testimony or litigation support services or otherwise accept an engagement to comment on issues relating to the quality of our engagement.

Effective Date

14. This Statement will be effective upon issuance.