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Reporting on comparative financial statements; Statement on standards for accounting and review services 2

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

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American Institute of Certified Public Accountants. Accounting and Review Services Committee, "Reporting on comparative financial statements; Statement on standards for accounting and review services 2" (1979). *AICPA Professional Standards*. 304.

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Statement on Standards for Accounting and Review Services

Issued by the Accounting and Review Services Committee

October 1979

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AICPA American Institute of Certified Public Accountants

Reporting on Comparative Financial Statements

1. This statement establishes standards for reporting on comparative financial statements¹ of a nonpublic entity when financial statements of one or more periods presented have been compiled or reviewed in accordance with SSARS 1.²
2. 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.³
3. 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

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

2. 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, by substituting the foregoing definition of a nonpublic entity. The terms *financial statements*, *compilation*, and *review* are defined in paragraph 4 of SSARS 1.

3. 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. 1, section 516 or 517.

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.

4. 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.

5. Compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles⁴ 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.)

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

Definitions

7. 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

⁴ 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. 14, paragraph 4.

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.⁵

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

8. 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.⁶ 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.

9. 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:

Compilation Each Period

The accompanying balance sheets of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended have been 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 accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

February 1, 19X3

5. See paragraphs 15 and 33 of SSARS 1.

6. 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.

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 changes in financial position for the years 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 (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 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, 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

- 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 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 (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 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, 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 finan-

cial statements and, accordingly, do not express an opinion or any other form of assurance on them.

March 1, 19X3

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,⁷ 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.⁸

7. A changed reference includes the removal of a prior reference or the inclusion of a new reference.

8. The successor accountant may wish to consider the guidance in SAS no. 7, *Communications Between Predecessor and Successor Auditors*, in determining what communications, if any, with the predecessor accountant are appropriate, giving due consideration to the different objectives of compilation, review, and audit engagements.

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).⁹
- 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

9. The successor should not name the predecessor in his report.

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 (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 8, 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 examined 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 examined 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, 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:

The accompanying balance sheets of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended have been 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 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 changes in financial position. 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

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.¹⁰ 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.¹¹ In these circumstances, the accountant should refer to paragraph 28 for guidance on the appropriate method of reporting on the comparative financial statements.

10. 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.

11. 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 (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.)

Transition

33. A continuing accountant who previously issued a disclaimer of opinion in accordance with SAS no. 1, sections 516 or 517, 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 (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.

35. A predecessor accountant who previously issued a disclaimer of opinion in accordance with SAS no. 1, sections 516 or 517, 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 (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 (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.

The statement entitled Reporting on Comparative Financial Statements was adopted unanimously by the fifteen members of the committee, of whom four, Messrs. Gutberlet, Martin, Recker, and Silverman, assented with qualification.

Mr. Gutberlet approves the issuance of this statement, but qualifies his assent because, although he agrees that financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or another comprehensive basis of accounting are not comparable to financial statements that include such disclosures, he believes that paragraph 5 should not prohibit an accountant from reporting on such financial statements when they are presented in columnar form. He believes that an accountant should be permitted to report on such noncomparable financial statements, provided he states in his report that because of the lack of disclosures the financial statements are not fairly presented in accordance with generally accepted accounting principles. Mr. Gutberlet's opinion is based on his belief that communication of such an adverse conclusion is consistent with the standards established in paragraphs 39 to 41 of SSARS 1; that is, such communication constitutes modification of the accountant's standard report that is adequate to indicate the deficiencies in the financial statements taken as a whole. Mr. Gutberlet also believes that the provisions in paragraphs 29 and 30, when coupled with the standard established in paragraph 5, are untenable, particularly if the accountant has audited the prior-period financial statements. He believes that the statement should have defined a service he describes as "abstraction" (i.e., the process of separating the measurement principles from the disclosure principles in previously compiled, reviewed, or audited financial statements that did not omit substantially all of the disclosures required by generally accepted accounting principles). This undertaking would have required the establishment of standards for (a) the performance of an abstraction service, (b) communicating the nature of the service performed, and (c) communicating an appropriate level of assurance.

Messrs. Martin, Recker, and Silverman approve the issuance of this statement but qualify their assent because they believe that the reference to SAS no. 7 in footnote 8 of paragraph 16 is inappropriate and the guidance provided in that footnote is inadequate. The procedures for communications between predecessors and successors required by SAS no. 7 were designed for circumstances involving audit responsibilities that are substantially different from the compilation or review services responsibilities. They believe that a reference to SAS no. 7, however worded, implies a requirement to communicate in a manner responsive to the auditing standards. Guidance that specifically relates to the standards for compilation and review services is needed. The Accounting and Review Services Committee has not yet addressed that need; the guidance contained in footnote 8 is premature.

Mr. Recker also qualifies his assent because he believes that an accountant should not be required to issue a report covering the financial statements of each period presented, provided the financial statements that have not been compiled or reviewed are accompanied by an indication that the accountant has not compiled or reviewed the financial statements and that he assumes no responsibility for them. Mr. Recker believes that this position is consistent with the provisions of SSARS 1, paragraph 6(b).

Mr. Recker also believes that paragraph 5 should not prohibit reporting on comparative financial statements when one or more, but not all, of the periods presented omit substantially all disclosures required by generally accepted accounting principles. He believes that reporting on such financial statements in comparative form should be permitted, provided the accountant's report is modified to disclose the omission of substantially all disclosures required by generally accepted accounting principles in accordance with the provisions of SSARS 1.

Mr. Silverman also qualifies his assent because he believes that the standards in paragraphs 27 and 28 applicable to compilation or review reports on unaudited financial statements that are presented in comparative form with audited financial statements should not be different from the reporting standards contained elsewhere in this pronouncement. For example, when the same or a higher level of service has been performed with respect to the current-period financial statements, a continuing accountant is required by paragraph 8 to issue an updated compilation or review report as defined in paragraph 7 on the prior-period financial statements. In the same circumstances, paragraph 27 requires a continuing accountant to submit a re-issued compilation or review report as defined in paragraph 7 or to include a description of the responsibility assumed for the prior-period financial statements in his report on the current period. Mr. Silverman believes that the provisions of paragraph 8 should apply to reporting on all financial statements that have been compiled or reviewed. The effect of paragraphs 27 and 28 is that when audited and unaudited financial statements are presented in comparative form, standards for the performance of compilation and review work are established by the Accounting and Review Services Committee while the standards for reporting on that work are established by the Auditing Standards Board. Mr. Silverman believes that there is no compelling reason for this result.

Accounting and Review Services Committee (1978-1979)

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Note: *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 204 of the Institute's Rules of Professional Conduct. Rule 204 requires adherence to those technical standards and requires that members be prepared to justify departures from them.*

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