

2005

Proposed statement on standards for accounting and review services: Restricting the use of an accountant's compilation or review report; Restricting the use of an accountant's compilation or review report

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

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Recommended Citation

American Institute of Certified Public Accountants. Accounting and Review Services Committee, "Proposed statement on standards for accounting and review services: Restricting the use of an accountant's compilation or review report; Restricting the use of an accountant's compilation or review report" (2005). *Statements of Position*. 314.
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EXPOSURE DRAFT

**PROPOSED STATEMENT ON STANDARDS FOR
ACCOUNTING AND REVIEW SERVICES**

**RESTRICTING THE USE OF AN ACCOUNTANT'S
COMPILATION OR REVIEW REPORT**

MARCH 18, 2005

**Prepared by the Accounting and Review Services Committee
American Institute of Certified Public Accountants**

**Comments should be sent by electronic mail to Michael Glynn at
mglynn@aicpa.org and received by June 10, 2005.**

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March 18, 2005

Accompanying this letter is an exposure draft of a proposed Statement on Standards for Accounting and Review Services (SSARS), *Restricting the Use of an Accountant's Compilation or Review Report*. A summary of the significant provisions of the proposed SSARS follows this letter.

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

Written comments will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after July 8, 2005, for one year. Comments should be sent via electronic mail to Michael Glynn at mglynn@aicpa.org and received no later than June 10, 2005.

Sincerely,

Andrew M. Cohen
Chair
Accounting and Review Services Committee

Charles E. Landes
Vice President
Professional Standards

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SUMMARY

The attached is an exposure draft of a proposed Statement on Standards for Accounting and Review Services (SSARS) entitled *Restricting the Use of an Accountant's Compilation or Review Report*.

WHY ISSUED AND WHAT IT DOES

This proposed Statement will provide guidance to accountants on restricting the use of reports issued pursuant to Statements on Standards for Accounting and Review Services (SSARS) by:

- Defining the terms *general use* and *restricted use*.
- Describing the circumstances in which the use of an accountant's report should be restricted.
- Specifying the language to be used in accountant's reports that are restricted regarding use.

EFFECTIVE DATE

The proposed Statement would be effective upon issuance.

HOW IT AFFECTS EXISTING STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

The proposed Statement would not change any existing Standards.

**PROPOSED STATEMENT ON STANDARDS FOR
ACCOUNTING AND REVIEW SERVICES**

**RESTRICTING THE USE OF AN ACCOUNTANT'S COMPILATION OR
REVIEW REPORT**

1. This Statement provides guidance to accountants on restricting the use of reports issued pursuant to Statements on Standards for Accounting and Review Services (SSARS). This Statement:
 - Defines the terms *general use* and *restricted use*.
 - Describes the circumstances in which the use of accountant's reports should be restricted.
 - Specifies the language to be used in accountant's reports that are restricted regarding use.

General-Use and Restricted-Use Reports

2. The term *general use* applies to accountant's reports that are not restricted to specified parties. Accountant's reports on financial statements prepared in conformity with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles ordinarily are not restricted regarding use.¹
3. The term *restricted use* applies to accountant's reports intended only for one or more specified third parties. The need for restriction on the use of a report may result from a number of circumstances, including, but not limited to, the purpose of the report and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used.
4. An accountant should restrict the use of a report when the subject matter of the accountant's report or the presentation being reported on is based on measurement or disclosure criteria contained in contractual agreements² or regulatory provisions that are not in conformity with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles.³ Interpretation 18, "Special-Purpose Financial Presentations to Comply With Contractual Agreements or Regulatory Provisions" of SSARS No. 1, *Compilation and Review of Financial Statements* (AICPA,

¹ Nothing in this Statement precludes an accountant from restricting the use of any report.

² A contractual agreement as discussed in this Statement is an agreement between the client and one or more third parties other than the accountant.

³ When the contractual agreement or regulatory provision specifies the use of a prescribed form for which the accountant has been engaged to compile the financial statements, the accountant should reference SSARS No. 3, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms* (AICPA, *Professional Standards*, vol. 2, AR sec. 300), for an alternative form of standard compilation report when the prescribed form calls for a departure from generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles.

Professional Standards, vol. 2, AR sec. 9100.63-.72), provides additional guidance when an accountant is asked to report on special-purpose financial statements prepared to comply with a contractual agreement or regulatory provision that specifies a special basis of presentation.

Reporting on Subject Matter or Presentations Based on Measurement or Disclosure Criteria Contained in Contractual Agreements or Regulatory Provisions

5. When reports are issued on subject matter or presentations based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions that are not in conformity with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles, the accountant should restrict the report because the basis, assumptions, or purpose of such presentations (contained in such agreements or regulatory provisions) are developed for and directed only to the parties to the agreement or regulatory agency responsible for the provisions and because the report, the subject matter, or the presentation may be misunderstood by those who are not adequately informed of the basis, assumptions, or purpose of the presentation.

Combined Reports Covering Both Restricted-Use and General-Use Subject Matter or Presentations

6. If an accountant issues a single combined report covering both (a) subject matter or presentations that require a restriction on use to specified parties and (b) subject matter or presentations that ordinarily do not require such a restriction, the use of such a single combined report should be restricted to the specified parties.

Inclusion of a Separate Restricted-Use Report in the Same Document With a General-Use Report

7. In some instances, a separate restricted-use report may be included in a document that also contains a general-use report. The inclusion of a separate restricted-use report in a document that contains a general-use report does not affect the intended use of either report. The restricted-use report remains restricted as to use, and the general-use report continues for general use.

Adding Other Specified Parties

8. Subsequent to the completion of an engagement resulting in a restricted-use report, or in the course of such an engagement, an accountant may be asked to consider adding other parties as specified parties.
9. If an accountant is reporting on subject matter or a presentation based on measurement or disclosure criteria contained in contractual agreements or

regulatory provisions, as described in paragraph 5 of this Statement, the accountant may agree to add other parties as specified parties based on the accountant's consideration of factors such as the identity of the other parties, their knowledge of the basis of the measurement or disclosure criteria, and the intended use of the report. If the accountant agrees to add other parties as specified parties, the accountant should obtain affirmative acknowledgment, preferably in writing, from the other parties of their understanding of the nature of the engagement, the measurement or disclosure criteria used in the engagement, and the related report. If the other parties are added after the accountant has issued his or her report, the report may be reissued or the accountant may provide other written acknowledgment that the other parties have been added as specified parties. If the report is reissued, the report date should not be changed. If the accountant provides written acknowledgment that the other parties have been added as specified parties, such written acknowledgment ordinarily should state that no procedures have been performed subsequent to the date of the report.

Limiting the Distribution of Reports

10. Because of the reasons presented in paragraph 3 of this Statement, an accountant should consider informing his or her client that restricted-use reports are not intended for distribution to nonspecified parties, regardless of whether they are included in a document containing a separate general-use report.⁴ This section does not preclude an accountant, in connection with establishing the terms of the engagement, from reaching an understanding with the client that the intended use of the report will be restricted, and from obtaining the client's agreement that the client and the specified parties will not distribute the report to parties other than those identified in the report. However, an accountant is not responsible for controlling a client's distribution of restricted-use reports. Accordingly, a restricted-use report should alert readers to the restriction on the use of the report by indicating that the report is not intended to be and should not be used by anyone other than the specified parties.

Report Language – Restricted Use

11. An accountant's report that is restricted as to use should contain a separate paragraph at the end of the report that includes the following elements:
 - a. A statement indicating that the report is intended solely for the information and use of the specified parties
 - b. An identification of the specified parties to whom use is restricted

⁴ In some cases, restricted-use reports filed with regulatory agencies are required by law or regulation to be made available to the public as a matter of public record. Also, a regulatory agency as part of its oversight responsibility for an entity may require access to restricted-use reports in which they are not named as a specified party.

- c. A statement that the report is not intended to be and should not be used by anyone other than the specified parties

An example of such a paragraph is the following:

This report is intended solely for the information and use of [*the specified parties*]⁵ and is not intended to be and should not be used by anyone other than these specified parties.

- 12. This Statement is effective upon issuance.

⁵ The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.