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Statements on Standards for Accounting and Review Services  
Numbers 1 to 19

# Codification of Statements on Standards for Accounting and Review Services

Numbers 1 to 19  
as of January 2010

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA®

# Codification of Statements on Standards for Accounting and Review Services

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Numbers 1 to 19  
as of January 2010



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## FOREWORD

This volume, issued by the Accounting and Review Services Committee, is a codification of Statements on Standards for Accounting and Review Services. It contains the currently effective statements through number 19, with superseded portions deleted and amendments included, and related accounting and review services interpretations.

The Accounting and Review Services Committee is the senior technical committee of the AICPA designated to issue enforceable standards in connection with the unaudited financial statements or other unaudited financial information of a nonpublic entity.

### ACCOUNTING AND REVIEW SERVICES COMMITTEE

Carolyn H. McNerney, Chair  
Michael P. Glynn, Technical Manager—  
Audit and Attest Standards



## WHAT'S NEW IN THIS EDITION

<u>Statement</u>	<u>Title</u>	<u>Issue Date</u>	<u>Section</u>
SSARS No. 19	<i>Compilation and Review Engagements</i>	Dec. 2009	60, 80, and 90

### ADDITIONAL CHANGES

Other changes to this edition of *Codification of Statements on Standards for Accounting and Review Services* include:

<u>Section</u>	<u>Change</u>
AR 100	Amendments to reflect conforming changes due to the issuance of Financial Accounting Standards Board (FASB) <i>Accounting Standards Codification</i> <sup>TM</sup> (ASC).
AR 9100.18–.22, .95–.99, and .120–.129	Amendments to Interpretation Nos. 6, 25, and 29 of AR section 100 to reflect conforming changes due to the issuance of FASB ASC.
AR Exhibit C	Deletion to reflect conforming changes necessary due to the issuance of FASB ASC 855, <i>Subsequent Events</i> .

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## HOW THIS VOLUME IS ORGANIZED

### Scope of the Volume

This volume, which is a reprint of the accounting and review services part of the looseleaf edition of *AICPA Professional Standards*, includes Statements on Standards for Accounting and Review Services Nos. 1 to 19, issued by the Accounting and Review Services Committee, and interpretations issued by the AICPA staff.

### Arrangement of Material in This Volume

The material in this volume is arranged as follows:

- Statements on Standards for Accounting and Review Services
- Accounting and Review Services Interpretations
- Exhibits
- Appendixes
- Topical Index

### Description of Content

The arrangement of material in this volume is indicated in the general table of contents at the front of the volume. There is a detailed table of contents covering the material within each major division.

The major divisions are divided into sections, each with its own section number. Each paragraph within a section is decimally numbered. For example, AR section 200.04 refers to the fourth paragraph of section 200, *Reporting on Comparative Financial Statements*.

Accounting and Review Services Interpretations are numbered in the 9000 series with the last three digits indicating the section to which the interpretation relates. Interpretations immediately follow their corresponding section. For example, interpretations related to section 100 are numbered 9100, which directly follows section 100.

There are two appendixes related to accounting and review services standards as follows:

Appendix A indicates sections of the text cross-referenced to Statements on Standards for Accounting and Review Services.

Appendix B is reserved.

Appendix C provides a schedule of changes in Statements on Standards for Accounting and Review Services beginning with the issuance of Statement on Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements*

A topical index uses the key word method to facilitate reference to the statements and interpretations. The index is arranged alphabetically by topic with references to section and paragraph numbers.

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# AR Section

## STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

Statements on Standards for Accounting and Review Services (SSARS) are issued by the AICPA Accounting and Review Services Committee (ARSC), the senior technical committee of the AICPA designated to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of a non-public entity. Council has designated ARSC as a body to establish technical standards under Rule 202 of the AICPA's Code of Professional Conduct (ET sec. 202 par. 01).

Interpretations are issued to provide guidance on the application of SSARS. Interpretations are issued after all members of ARSC have been provided an opportunity to consider and comment on whether the proposed Interpretation is consistent with SSARS. An interpretation is not as authoritative as a SSARS, but members should be aware that they may have to justify a departure from an interpretation if the quality of their work is questioned.

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## AR Section 20

# Defining Professional Requirements in Statements on Standards for Accounting and Review Services

Issue date, unless  
otherwise indicated:  
December, 2007

Source: SSARS No. 16

## Introduction

.01 This section sets forth the meaning of certain terms used in Statements on Standards for Accounting and Review Services (SSARSs) issued by the Accounting and Review Services Committee (ARSC) in describing the professional requirements imposed on accountants performing a compilation or review.

## Professional Requirements

.02 SSARSs contain professional requirements, together with related guidance, in the form of explanatory material. Accountants performing a compilation or review have a responsibility to consider the entire text of a SSARS in carrying out their work on an engagement and in understanding and applying the professional requirements of the relevant SSARSs.

.03 Not every paragraph of a SSARS carries a professional requirement that the accountant is expected to fulfill. Rather, the professional requirements are communicated by the language and the meaning of the words used in the SSARSs.

.04 SSARSs use two categories of professional requirements identified by specific terms to describe the degree of responsibility they impose on accountants. They are as follows:

- *Unconditional requirements.* The accountant is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies. SSARSs use the words *must* or *is required* to indicate an unconditional requirement.
- *Presumptively mandatory requirements.* The accountant is also required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies; however, in rare circumstances, the accountant may depart from a presumptively mandatory requirement provided that the accountant documents his or her justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. SSARSs use the word *should* to indicate a presumptively mandatory requirement.

If a SSARS provides that a procedure or action is one that the accountant "should consider," the consideration of the procedure or action is presumptively required, whereas carrying out the procedure or action is not. The professional

requirements of a SSARS are to be understood and applied in the context of the explanatory material that provides guidance for their application.

## Explanatory Material

**.05** Explanatory material is defined as the text within a SSARS (excluding any related appendixes or interpretations<sup>1</sup>) that may do the following:

- Provide further explanation and guidance on the professional requirements
- Identify and describe other procedures or actions relating to the activities of the accountant

**.06** Explanatory material that provides further explanation and guidance on the professional requirements is intended to be descriptive rather than imperative. That is, it explains the objective of the professional requirements (where not otherwise self-evident); it explains why the accountant might consider or employ particular procedures, depending on the circumstances; and it provides additional information for the accountant to consider in exercising professional judgment in performing the engagement.

**.07** Explanatory material that identifies and describes other procedures or actions relating to the activities of the accountant is not intended to impose a professional requirement for the accountant to perform the suggested procedures or actions. Rather, these procedures or actions require the accountant's attention and understanding; how and whether the accountant carries out such procedures or actions in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the standard. The words *may*, *might*, and *could* are used to describe these actions and procedures.

## Application

**.08** The provisions of this section are effective upon issuance.<sup>2</sup>

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<sup>1</sup> Compilation and review interpretations of the Statements on Standards for Accounting and Review Services (SSARSs) and appendixes represent interpretive publications, which differ from explanatory material. Explanatory material is always contained within the standards sections of the SSARS and is meant to be descriptive in nature. Interpretive publications, as defined in paragraphs .05–.06 of AR section 50 reside outside of the standards section of a SSARS and are recommendations on the application of the SSARS in specific circumstances, including engagements for entities in specialized industries. Interpretive publications are issued after all members of the Accounting and Review Services Committee (ARSC) have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with the SSARSs. Interpretive publications consist of compilation and review interpretations of the SSARSs, appendixes to the SSARSs, compilation and review guidance included in AICPA *Audit and Accounting Guides*, and AICPA Statements of Position to the extent that those statements are applicable to compilation and review engagements.

<sup>2</sup> The specific terms used to define professional requirements in this section are not intended to apply to interpretive publications issued under the authority of the ARSC, since interpretive publications are not SSARSs. (See footnote 1.) It is the ARSC's intention to make conforming changes to the interpretive publications to remove any language that would imply a professional requirement where none exists. It is the ARSC's intention that such language would only be used in the standards sections of the SSARSs.

## AR Section 50

# *Standards for Accounting and Review Services*

Issue date, unless  
otherwise indicated:  
May, 2004

Source: SSARS No. 11

**.01** An accountant must perform a compilation or review of a nonissuer in accordance with Statements on Standards for Accounting and Review Services (SSARS) issued by the American Institute of Certified Public Accountants. SSARS provide a measure of quality and the objectives to be achieved in both a compilation and review. [Paragraph amended by the issuance of SSARS No. 17, December 2008.]

**.02** The SSARS are issued by the AICPA Accounting and Review Services Committee (ARSC) and provide performance and reporting standards for compilations and reviews.

**.03** Rule 202, *Compliance With Standards*, of the AICPA Code of Professional Conduct [ET section 202.01], requires an AICPA member who performs compilations or reviews to comply with standards promulgated by the ARSC. The ARSC develops and issues standards in the form of Statements on Standards for Accounting and Review Services through a due process that includes deliberations in meetings open to the public, public exposure of proposed SSARS, and a formal vote. The SSARS are codified.

**.04** The accountant should have sufficient knowledge of the SSARS to identify those that are applicable to his or her engagement. The nature of the SSARS requires an accountant to exercise professional judgment in applying them. The accountant should be prepared to justify departures from the SSARS.

## Interpretative Publications

**.05** *Interpretative publications* consist of compilation and review Interpretations of the SSARS, appendixes to the SSARS, compilation and review guidance included in *AICPA Audit and Accounting Guides*, and AICPA Statements of Position to the extent that those Statements are applicable to compilation and review engagements. Interpretative publications are not standards for accounting and review services. Interpretative publications are recommendations on the application of the SSARS in specific circumstances, including engagements for entities in specialized industries. An interpretative publication is issued after all ARSC members have been provided an opportunity to consider and comment on whether the proposed interpretative publication is consistent with the SSARS.

**.06** The accountant should be aware of and consider interpretative publications applicable to his or her compilation or review. If the accountant does not apply the guidance included in an applicable interpretative publication, the accountant should be prepared to explain how he or she complied with the SSARS provisions addressed by such guidance.

## Other Compilation and Review Publications

**.07** *Other compilation and review publications* include AICPA accounting and review publications not referred to above; AICPA's annual *Compilation and Review Alert*; compilation and review articles in the *Journal of Accountancy* and other professional journals; compilation and review articles in the AICPA *The CPA Letter*; continuing professional education programs and other instruction materials, textbooks, guide books, compilation and review programs, and checklists; and other compilation and review publications from state CPA societies, other organizations, and individuals.<sup>1</sup> Other compilation and review publications have no authoritative status; however, they may help the accountant understand and apply the SSARS.

**.08** If an accountant applies the guidance included in an other compilation and review publication, he or she should be satisfied that, in his or her judgment, it is both relevant to the circumstances of the engagement, and appropriate. In determining whether an other compilation and review publication is appropriate, the accountant may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying the SSARS and the degree to which the issuer or author is recognized as an authority in compilation and review matters. Other compilation and review publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are presumed to be appropriate.

## Predecessor's Compilation or Review Report

**.09** SSARS currently provide guidance to be followed when the financial statements of a prior period have been compiled or reviewed by a predecessor accountant whose report is not presented and the successor accountant has not compiled or reviewed those financial statements. This Statement amends footnote 9 in SSARS No. 2, *Reporting on Comparative Financial Statements* [section 200.17], to state that a successor accountant may name the predecessor accountant if the predecessor accountant's practice was acquired by, or merged with, that of the successor accountant. New language is shown in boldface italics.

<sup>9</sup> The successor ***accountant*** should not name the predecessor ***accountant*** in his ***or her*** report; ***however, the successor accountant may name the predecessor accountant if the predecessor accountant's practice was acquired by, or merged with, that of the successor accountant.***

## Effective Date

**.10** This section is effective upon issuance.

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<sup>1</sup> The accountant is not expected to be aware of the full body of other compilation and review publications.



## AR Section 60

# *Framework for Performing and Reporting on Compilation and Review Engagements*

Issue date, unless otherwise indicated: December 2009

Source: SSARS No. 19

## Introduction

**.01** This section provides a framework and defines and describes the objectives and elements of compilation and review engagements. This section also sets forth the meaning of certain terms used in Statements on Standards for Accounting and Review Services (SSARSs) issued by the Accounting and Review Services Committee (ARSC) in describing the professional requirements imposed on accountants performing compilation and review engagements.

**.02** The following is an overview of this section:

- "Relevant Definitions." This section defines various terms used throughout SSARSs.
- "Objectives and Limitations of Compilation and Review Engagements." This section sets forth the objectives and limitations of compilation and review engagements and identifies the differences between each engagement.
- "Professional Requirements." This section sets forth the meaning of certain terms used in SSARSs in describing the professional requirements imposed on accountants performing a compilation or review engagement.
- "Hierarchy of Compilation and Review Standards and Guidance." This section sets forth the hierarchy of SSARSs literature.
- "Elements of a Compilation or Review Engagement." This section identifies and discusses five engagement elements: a three party relationship involving management, an accountant, and intended users; an applicable financial reporting framework; financial statements; evidence (in a review engagement); and a written communication or report. It explains important distinctions between compilation engagements in which the accountant obtains no assurance and review engagements that are designed to obtain limited assurance.
- "Materiality." This section discusses the concept of materiality in the context of the preparation and presentation of financial statements.

**.03** This section is intended to help accountants better understand their professional responsibilities when engaged to compile or review financial statements or financial information. Additional standards of SSARSs have been established to set forth specific performance and reporting requirements. Such additional standards are based on the framework provided by this standard,

and any requirements created by this standard also have been incorporated into the additional standards of SSARs.

## Relevant Definitions

.04 Terms defined for purposes of SSARs are as follows:

**Applicable financial reporting framework.** The financial reporting framework adopted by management and, when appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

**Assurance engagement.** An engagement in which an accountant issues a report designed to enhance the degree of confidence of third parties and management about the outcome of an evaluation or measurement of financial statements (subject matter) against an applicable financial reporting framework (criteria).

**Attest engagement.** An engagement that requires independence, as defined in AICPA *Professional Standards*.

**Financial reporting framework.** A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements.

**Financial statements.** A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term *financial statements* ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement or financial statements without notes.

**Management.** The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance (for example, executive members of a governance board or an owner-manager).

**Nonissuer.** All entities except for those defined in Section 3 of the Securities Exchange Act of 1934 [15 U.S.C. 78c], the securities of which are registered under Section 12 of that Act (15 U.S.C. 78l), or that is required to file reports under Section 15(d) (15 U.S.C. 78o(d)), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933 (15 U.S.C. 77a et seq.), and that it has not withdrawn..

**Other comprehensive basis of accounting (OCBOA).** A definite set of criteria, other than accounting principles generally accepted in the United States of America or International Financial Reporting Standards (IFRSs), having substantial support underlying the preparation of financial statements prepared pursuant to that basis.

Examples of an OCBOA are as follows:

- a. A basis of accounting that the reporting entity uses to comply with the requirements or financial reporting provisions of a governmental regulatory agency to whose jurisdiction the entity is

subject (for example, a basis of accounting that insurance companies use pursuant to the rules of a state insurance commission).

- b. A basis of accounting that the reporting entity uses or expects to use to file its income tax return for the period covered by the financial statements.
- c. The cash basis of accounting and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets). Ordinarily, a modification would have substantial support if the method is equivalent to the accrual basis of accounting for that item and if the method is not illogical.

**Review evidence.** Information used by the accountant to provide a reasonable basis for the obtaining of limited assurance.

**Submission of financial statements.** Presenting to management financial statements that an accountant has prepared.

**Third party.** All persons, including those charged with governance, except for members of management.

**Those charged with governance.** The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance are specifically excluded from management, unless they perform management functions.

## Objectives and Limitations of Compilation and Review Engagements

**.05** A compilation is a service, the objective of which is to assist management in presenting financial information in the form of financial statements<sup>1</sup> without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. Although a compilation is not an assurance engagement, it is an attest engagement.

**.06** A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for obtaining or providing any assurance regarding the financial statements.

**.07** A review is a service, the objective of which is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the

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<sup>1</sup> For purposes of the Statements on Standards for Accounting and Review Services (SSARs), with respect to compilation engagements, references to "financial statements" include, when applicable, other specified elements, accounts, or items of a financial statement and pro forma financial information.

applicable financial reporting framework. In a review engagement, the accountant should accumulate review evidence to obtain a limited level of assurance. A review engagement is an assurance engagement as well as an attest engagement.

**.08** A review differs significantly from an audit of financial statements in which the auditor obtains a high level of assurance (expressed in the auditor's report as obtaining reasonable assurance) that the financial statements are free of material misstatement. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, in a review, the accountant does not obtain assurance that he or she will become aware of all significant matters that would be disclosed in an audit. Therefore, a review is designed to obtain only limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.

## Professional Requirements

### Requirements

**.09** SSARSs contain professional requirements, together with related guidance, in the form of explanatory material. Accountants performing a compilation or review have a responsibility to consider the entire text of a SSARS in carrying out their work on an engagement and in understanding and applying the professional requirements of the relevant SSARSs.

**.10** Not every paragraph of a SSARS carries a professional requirement that the accountant is expected to fulfill. Rather, the professional requirements are communicated by the language and the meaning of the words used in SSARSs.

**.11** SSARSs use two categories of professional requirements identified by specific terms to describe the degree of responsibility they impose on accountants. They are as follows:

- *Unconditional requirements.* The accountant is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies. SSARSs use the words *must* or *is required* to indicate an unconditional requirement.
- *Presumptively mandatory requirements.* The accountant also is required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies; however, in rare circumstances, the accountant may depart from a presumptively mandatory requirement provided that the accountant documents his or her justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. SSARSs use the word *should* to indicate a presumptively mandatory requirement.

If a SSARS provides that a procedure or action is one that the accountant "should consider," the consideration of the procedure or action is presumptively

required, whereas carrying out the procedure or action is not. The professional requirements of a SSARS are to be understood and applied in the context of the explanatory material that provides guidance for their application. The specific terms used to define professional requirements are not intended to apply to interpretative publications issued under the authority of the ARSC because interpretative publications are not SSARSs.

## Explanatory Material

**.12** *Explanatory material* is defined as the text within a SSARS (excluding any related appendixes or interpretations) that may do the following:

- Provide further explanation and guidance on the professional requirements
- Identify and describe other procedures or actions relating to the activities of the accountant

**.13** Explanatory material that provides further explanation and guidance on the professional requirements is intended to be descriptive rather than imperative. That is, it explains the objective of the professional requirements (when not otherwise self-evident); it explains why the accountant might consider or employ particular procedures, depending on the circumstances; and it provides additional information for the accountant to consider in exercising professional judgment in performing the engagement.

**.14** Explanatory material that identifies and describes other procedures or actions relating to the activities of the accountant is not intended to impose a professional requirement for the accountant to perform the suggested procedures or actions. Rather, these procedures or actions require the accountant's attention and understanding; how and whether the accountant carries out such procedures or actions in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the standard. The words *may*, *might*, and *could* are used to describe these actions and procedures.

## Hierarchy of Compilation and Review Standards and Guidance

### Compilation and Review Standards

**.15** An accountant must perform a compilation or review engagement of a nonissuer in accordance with SSARSs, except for certain reviews of interim financial information as discussed in paragraph .01 of section 90. SSARSs provide a measure of quality and the objectives to be achieved in both a compilation and review engagement.

**.16** Rule 202, *Compliance With Standards* (ET sec. 202 par. .01), requires an AICPA member who performs compilations or reviews to comply with standards promulgated by the ARSC. The ARSC develops and issues standards in the form of SSARSs through a due process that includes deliberations in meetings open to the public, public exposure of proposed SSARSs, and a formal vote. Finalized SSARSs are codified.

**.17** The nature of SSARSs requires an accountant to exercise professional judgment in applying them.

## Interpretative Publications

**.18** Interpretative publications consist of compilation and review interpretations of SSARs; appendixes to SSARs; compilation and review guidance included in AICPA Audit and Accounting Guides; and AICPA Statements of Position, to the extent that those statements are applicable to compilation and review engagements. Interpretative publications are not standards for accounting and review services. Interpretative publications are recommendations on the application of SSARs in specific circumstances, including engagements for entities in specialized industries. An interpretative publication is issued under the authority of the ARSC after all ARSC members have been provided an opportunity to consider and comment on whether the proposed interpretative publication is consistent with SSARs.

**.19** The accountant should be aware of and consider interpretative publications applicable to his or her compilation or review. If the accountant does not apply the guidance included in an applicable interpretative publication, the accountant should be prepared to explain how he or she complied with the provisions of SSARs addressed by such guidance.

## Other Compilation and Review Publications

**.20** Other compilation and review publications include AICPA accounting and review publications not referred to previously; the AICPA's annual *Compilation and Review Alert*; compilation and review articles in the *Journal of Accountancy* and other professional journals; compilation and review articles in the AICPA's *The CPA Letter*; continuing professional education programs and other instructional materials, textbooks, guide books, compilation and review programs, and checklists; and other compilation and review publications from state CPA societies, other organizations, and individuals. Other compilation and review publications have no authoritative status; however, they may help the accountant understand and apply SSARs. An accountant is not expected to be aware of the full body of other compilation and review publications.

**.21** If an accountant applies the guidance included in an other compilation and review publication, he or she should be satisfied that, in his or her judgment, it is both relevant to the circumstances of the engagement and appropriate. In determining whether an other compilation and review publication that has not been reviewed by the AICPA Audit and Attest Standards staff is appropriate, the accountant may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying SSARs and the degree to which the issuer or author is recognized as an authority in compilation and review matters. Other compilation and review publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are presumed to be appropriate.

## Ethical Principles and Quality Control Standards

**.22** In addition to SSARs, AICPA members who perform compilation and review engagements are governed by

- a. the AICPA's Code of Professional Conduct (code), which expresses the profession's recognition of its responsibilities to the public, to clients, and to colleagues. The principles of the code guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.

- b. Statements on Quality Control Standards (SQCSs), which establish standards and provide guidance on a firm's system of quality control.

**.23** The code sets out the fundamental ethical principles that all AICPA members are required to observe. When performing a compilation or review engagement, the code requires an accountant to maintain objectivity and integrity and comply with all other applicable provisions.

**.24** An accountant has the responsibility to adopt a system of quality control in conducting an accounting practice. Thus, a firm should establish quality control policies and procedures to provide reasonable assurance that personnel comply with SSARSs in compilation and review 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.

**.25** SSARSs relate to the conduct of individual compilation and review engagements; 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.

## Elements of a Compilation or Review Engagement

**.26** The following elements of a compilation and review engagement are discussed in this section:

- a. A three party relationship involving management, an accountant, and intended users
- b. An applicable financial reporting framework
- c. Financial statements or financial information
- d. In a review, sufficient appropriate review evidence
- e. A written communication or report

## Three Party Relationship

**.27** A compilation or review engagement involves three parties: management (or the responsible party); an accountant in the practice of public accounting, as defined by the AICPA code; and intended users of the financial statements or financial information.

**.28** In some cases, management and the intended users may be the same. Intended users may be from different entities (for example, a banker or potential investor) or the same entity.

**.29** If an accountant is not in the practice of public accounting, the issuance of a written communication or report under SSARSs would be inappropriate.

### ***Management (Responsible Party)***

**.30** Management responsibilities include taking responsibility for the preparation and fair presentation of the financial statements in accordance

with the applicable financial reporting framework and taking responsibility for designing, implementing, and maintaining internal control.<sup>2</sup>

**.31** A basic premise underlying the performance of a compilation or review engagement is that the accountant is performing an attest service on subject matter that is the responsibility of the client's management. Therefore, an accountant is precluded from issuing an unmodified compilation report or a review report on financial statements when management is unwilling to accept responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework or to take responsibility for the design, implementation, and maintenance of internal control.

**.32** As part of their responsibility for the preparation and presentation of the financial statements, management and, when appropriate, those charged with governance, are responsible for the identification of the applicable financial reporting framework and the preparation and presentation of the financial statements in accordance with that framework.

**.33** During the performance of a compilation or review engagement, the accountant may make suggestions about the form or content of the financial statements or prepare them, in whole or in part, based on information that is the representation of management.

### ***Accountant in the Practice of Public Accounting***

**.34** The accountant should possess a level of knowledge of the accounting principles and practices of the industry in which the entity operates that will enable him or her to compile or review financial statements that are appropriate in form for an entity operating in that industry. As addressed in the firm's quality control system, an accountant should not accept an engagement if preliminary knowledge of the engagement circumstances indicates that ethical requirements regarding professional competence will not be satisfied. In some cases, this requirement can be satisfied by the accountant using the work of persons from other professional disciplines, referred to as *experts*. In such cases, the accountant should be satisfied that those persons carrying out aspects of the engagement possess the requisite skills and knowledge and that the accountant has an adequate level of involvement in the engagement and understanding of the work for which any expert is used.

### ***Intended Users of the Financial Statements or Financial Information***

**.35** The intended users are the person(s) or class of persons who understand the limitations of the compilation or review engagement and financial statements. The accountant has no responsibility to identify the intended users.

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<sup>2</sup> The Committee of Sponsoring Organizations of the Treadway Commission defines *internal control* as a process effected by management (or those charged with governance and other personnel) designed to provide reasonable assurance about the achievement of the entity's objectives. Internal control consists of five interrelated components:

1. Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
2. Entity's risk assessment is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
3. Information and communication systems support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.
4. Control activities are the policies and procedures that help ensure that management directives are carried out.
5. Monitoring is a process that assesses the quality of internal control performance over time.



**.36** In some cases, intended users (for example, bankers and regulators) may impose a requirement on or request the client to arrange for additional procedures to be performed for a specific purpose. For example, a banker may request that certain agreed-upon procedures be performed with respect to the entity's accounts receivable in addition to the financial statements being compiled. An accountant may perform additional services in conjunction with the compilation or review, as long as he or she adheres to professional standards with respect to those additional services.

## **An Applicable Financial Reporting Framework**

**.37** Management and, when applicable, those charged with governance are responsible for the selection of the entity's applicable financial reporting framework, as well as individual accounting policies when the financial reporting framework contains acceptable alternatives. The financial reporting framework encompasses financial accounting standards established by an authorized or recognized standards setting organization.

**.38** The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficiently broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.

**.39** Examples of financial reporting frameworks include accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board, the Governmental Accounting Standards Board, or the Federal Accounting Standards Advisory Board; IFRSs issued by the International Accounting Standards Board; and OCBOA.

## **Financial Statement or Financial Information**

**.40** An accountant may be engaged to compile or review a complete set of financial statements or an individual financial statement (for example, balance sheet only). The financial statements may be for an annual period or for a shorter or longer period, depending on management's needs.

**.41** The requirements of the applicable financial reporting framework determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance, and cash flows of an entity. For example, a complete set of financial statements might include a balance sheet, an income statement, a statement of retained earnings, a cash flow statement, and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements.

**.42** The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.

## **Evidence**

**.43** When performing a compilation engagement, the accountant has no responsibility to obtain any evidence about the accuracy or completeness of the

financial statements. As a result, a compilation does not provide a basis for obtaining any level of assurance on the financial statements being compiled.

**.44** When performing a review engagement, the accountant should perform procedures designed to accumulate review evidence that will provide a reasonable basis for obtaining limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. The accountant should apply professional judgment in determining the specific nature, timing, and extent of review procedures. Such procedures should be tailored based on the accountant's understanding of the industry in which the client operates and the accountant's knowledge of the entity. The nature, timing, and extent of procedures for gathering review evidence are deliberately limited relative to an audit.

**.45** Review evidence obtained through the performance of analytical procedures and inquiries ordinarily will provide the accountant with a reasonable basis for obtaining limited assurance.

## Compilation and Review Reports

**.46** If the accountant performs a compilation, a report or written communication is required unless the accountant withdraws from the engagement.<sup>3</sup> If the accountant is not independent, he or she may issue a compilation report, provided that the accountant complies with the compilation standards. In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA's Code of Professional Conduct.

**.47** If the accountant performs a review, a written review report is required unless the accountant withdraws from the engagement.

## Materiality

**.48** Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that

- misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement or a combination of both; and
- judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

**.49** Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the accountant in determining

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<sup>3</sup> As further described in paragraphs .22–.24 of section 80, an accountant may be associated with the submission of financial statements not expected to be used by a third party. Such service does not require the accountant to issue a report on the financial statements.

whether there are any material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to in paragraph .48 provide the accountant with such a frame of reference.

**.50** The accountant's determination of materiality is a matter of professional judgment and is affected by the accountant's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the accountant to assume that users

- a.* have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
- b.* understand that financial statements are prepared, presented, and reviewed to levels of materiality;
- c.* recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
- d.* make reasonable economic decisions on the basis of the information in the financial statements.

## Effective Date

**.51** This section is effective for compilations and reviews of financial statements for periods ending on or after December 15, 2010.

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## AR Section 80

# Compilation of Financial Statements

Issue date, unless otherwise indicated: December 2009

Source: SSARS No. 19

**.01** This section establishes standards and provides guidance on compilations of financial statements. The accountant is required to comply with the provisions of this section whenever he or she is engaged to report on compiled financial statements or submits financial statements to a client or to third parties.

### Establishing an Understanding

**.02** The accountant should establish an understanding with management regarding the services to be performed for compilation engagements<sup>1</sup> and should document the understanding through a written communication with management. Such an understanding reduces the risks that either the accountant or management may misinterpret the needs or expectations of the other party. For example, it reduces the risk that management may inappropriately rely on the accountant to protect the entity against certain risks or to perform certain functions that are management's responsibility. The accountant should ensure that the understanding includes the objectives of the engagement, management's responsibilities, the accountant's responsibilities, and the limitations of the engagement. In some cases, the accountant may establish such understanding with those charged with governance.

**.03** An understanding with management and, if applicable, those charged with governance, regarding a compilation of financial statements should include the following matters:

- The objective of a compilation is to assist management in presenting financial information in the form of financial statements.
- The accountant utilizes information that is the representation of management (owners) without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- Management is responsible to prevent and detect fraud.

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<sup>1</sup> See paragraph .28 of QC section 10, *A Firm's System of Quality Control*.

- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant.
- The accountant is responsible for conducting the engagement in accordance with SSARs issued by the AICPA.
- A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion or provide any assurance regarding the financial statements.
- The engagement cannot be relied upon to disclose errors, fraud,<sup>2</sup> or illegal acts.<sup>3</sup>
- The accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of compilation procedures that fraud or an illegal act may have occurred.<sup>4</sup> The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.
- The effect of any independence impairments on the expected form of the accountant's compilation report, if applicable.

These matters should be communicated in the form of an engagement letter. Examples of engagement letters for a compilation of financial statements are presented in Compilation Exhibit A, "Illustrative Engagement Letters."

**.04** An understanding with management or, if applicable, those charged with governance, also may include other matters, such as the following:

- Fees and billings
- Any limitation of or other arrangements regarding the liability of the accountant or the client, such as indemnification to the accountant for liability arising from knowing misrepresentations to the

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<sup>2</sup> For purposes of the SSARs, *fraud* is an intentional act that results in a misstatement in compiled financial statements

<sup>3</sup> For purposes of the SSARs, *illegal acts* are violations of laws or government regulations, excluding fraud.

<sup>4</sup> Whether an act is, in fact, fraudulent or illegal is a determination that is normally beyond the accountant's professional competence. An accountant, in reporting on financial statements, presents himself or herself as one who is proficient in accounting and compilation services. The accountant's training, experience, and understanding of the client and its industry may provide a basis for recognition that some client acts coming to his or her attention may be fraudulent or illegal. However, the determination about whether a particular act is fraudulent or illegal would generally be based on the advice of an informed expert qualified to practice law or may have to await final determination by a court of law.

accountant by management (regulators may restrict or prohibit such liability limitation arrangements)

- Conditions under which access to compilation documentation may be granted to others
- Additional services to be provided relating to regulatory requirements

**.05** If the compiled financial statements are not expected to be used by a third party and the accountant does not expect to issue a compilation report on the financial statements, the accountant should include in the engagement letter an acknowledgment of management's representation and agreement that the financial statements are not to be used by a third party. The engagement letter also should address the following additional matters if applicable:

- Material departures from the applicable financial reporting framework may exist, and the effects of those departures, if any, on the financial statements may not be disclosed.
- Substantially all disclosures (and statement of cash flows, if applicable) required by the applicable financial reporting framework may be omitted.
- Reference to supplementary information.

## Compilation Performance Requirements

### Understanding of the Industry

**.06** The accountant should possess an understanding of the industry in which the client operates, including the accounting principles and practices generally used in the industry sufficient to enable the accountant to compile financial statements that are appropriate in form for an entity operating in that industry.

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

### Knowledge of the Client

**.08** The accountant should obtain knowledge about the client, including

- an understanding of the client's business and
- an understanding of the accounting principles and practices used by the client.

**.09** In obtaining an understanding of the client's business, the accountant should have a general understanding of the client's organization; its operating characteristics; and the nature of its assets, liabilities, revenues, and expenses. The accountant's understanding of the entity's business is ordinarily obtained

through experience with the entity or its industry and inquiry of the entity's personnel.

**.10** The accountant should obtain an understanding of the accounting principles and practices used by the client in measuring, recognizing, recording, and disclosing all significant accounts and disclosures in the financial statements. The accountant's understanding also may include matters such as changes in accounting practices and principles and differences in the client's business model as compared with normal practices within the industry.

**.11** In obtaining this understanding of the client's accounting policies and practices, the accountant should be alert to unusual accounting policies and procedures that come to the accountant's attention as a result of his or her knowledge of the industry.

## Reading the Financial Statements

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

## Other Compilation Procedures

**.13** The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity. However, the accountant may have made inquiries or performed other procedures. The results of such inquiries or procedures, knowledge gained from prior engagements, or the financial statements on their face may cause the accountant to become aware that information supplied by the entity is incorrect, incomplete, or otherwise unsatisfactory or that fraud or an illegal act may have occurred. The accountant should request that management consider the effect of these matters on the financial statements and communicate the results of such consideration to the accountant. Additionally, the accountant should consider the effect of management's conclusions regarding these matters on the accountant's compilation report. In circumstances when the accountant believes that the financial statements may be materially misstated, the accountant should obtain additional or revised information. If the entity refuses to provide additional or revised information, the accountant should withdraw from the engagement.

## Documentation in a Compilation Engagement

**.14** The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed. Documentation provides the principal support for the representation in the accountant's compilation report that the accountant performed the compilation in accordance with SSARs.

The accountant is not precluded from supporting the compilation report by other means in addition to the compilation documentation. Such other means might include written documentation contained in other engagement files or quality control files (for example, consultation files) and, in limited situations, oral explanations.



**.15** The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant's professional judgment. The accountant's documentation should include the following:

- a. The engagement letter documenting the understanding with the client
- b. Any findings or issues that, in the accountant's judgment, are significant (for example, the results of compilation procedures that indicate that the financial statements could be materially misstated, including actions taken to address such findings and, to the extent that the accountant had any questions or concerns as a result of his or her compilation procedures, how those issues were resolved)
- c. Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention

## Reporting on the Financial Statements

**.16** 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 written report. The accountant's objective in reporting on the financial statements is to prevent misinterpretation of the degree of responsibility the accountant is assuming when his or her name is associated with the financial statements.

**.17** The basic elements of the report are as follows:

- a. *Title.* The accountant's compilation report should have a title that clearly indicates that it is the accountant's compilation report. The accountant may indicate that he or she is independent in the title, if applicable. Appropriate titles would be "Accountant's Compilation Report" or "Independent Accountant's Compilation Report."
- b. *Addressee.* The accountant's report should be addressed as appropriate in the circumstances of the engagement.
- c. *Introductory paragraph.* The introductory paragraph in the accountant's report should
  - i. identify the entity whose financial statements have been compiled;
  - ii. state that the financial statements have been compiled;
  - iii. identify the financial statements that have been compiled;
  - iv. specify the date or period covered by the financial statements; and
  - v. include a statement that the accountant has not audited or reviewed the financial statements and, accordingly, does not express an opinion or provide any assurance about whether the financial statements are in accordance with the applicable financial reporting framework
- d. *Management's responsibility for the financial statements and for internal control over financial reporting.* A statement that management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing,

implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

- e. *Accountant's responsibility.* A statement that the accountant's responsibility is to conduct the compilation in accordance with SSARs issued by the AICPA.  
A statement that the objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.
- f. *Signature of the accountant.* The manual or printed signature of the accounting firm or the accountant, as appropriate.
- g. *Date of the accountant's report.* The date of the compilation report (the date of completion of the compilation should be used as the date of the accountant's report).

Procedures that the accountant might have performed as part of the compilation engagement should not be described in the report.

See Compilation Exhibit B, "Illustrative Compilation Reports," for illustrative compilation reports.

**.18** Each page of the financial statements compiled by the accountant should include a reference, such as "See accountant's compilation report" or "See independent accountant's compilation report."

**.19** Financial statements prepared in accordance with an OCBOA are not considered appropriate in form unless the financial statements include:

- a. a description of the OCBOA, including a summary of significant accounting policies and a description of the primary differences from generally accepted accounting principles (GAAP). The effects of the differences need not be quantified.
- b. informative disclosures similar to those required by GAAP if the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.

## Reporting on Financial Statements That Omit Substantially All Disclosures

**.20** An entity may request the accountant to compile financial statements that omit substantially all the disclosures required by an applicable financial reporting framework, including disclosures that might appear in the body of the financial statements.<sup>5</sup> The accountant may compile such financial statements, provided that the omission of substantially all disclosures is not, to his or her knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. When reporting on financial statements that omit substantially all disclosures, the accountant should include, after the paragraph describing the accountant's responsibility, a paragraph in the compilation report that includes the following elements:

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<sup>5</sup> See paragraphs .27–.29 for the accountant's responsibilities when he or she is aware of other departures from an applicable financial reporting framework. However, see section 300, for guidance when such financial statements are included in a prescribed form, and the prescribed form or related instructions do not request the disclosures required by an applicable financial reporting framework.

- a. A statement that management has elected to omit substantially all the disclosures (and the statement of cash flows, if applicable) required by the applicable financial reporting framework (or ordinarily included in the financial statements if the financial statements are prepared in accordance with an OCBOA)
- b. A statement that if the omitted disclosures (and statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows (or equivalent for presentations other than accounting principles generally accepted in the United States of America)
- c. A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters

When the entity wishes to include disclosures about only a few matters in the form of notes to such financial statements, such disclosures should be labeled "Selected Information—Substantially All Disclosures Required by [identify the applicable financial reporting framework (for example "Accepted Accounting Principles Generally Accepted in the United States of America")] Are Not Included."

See Compilation Exhibit B for examples of compilation reports when substantially all disclosures required by an applicable financial reporting framework are omitted.

## Reporting When the Accountant Is Not Independent

**.21** When the accountant is issuing a report with respect to a compilation of financial statements for an entity, with respect to which the accountant is not independent, the accountant's report should be modified. In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA's Code of Professional Conduct. The accountant should indicate his or her lack of independence in a final paragraph of the accountant's compilation report. An example of such a disclosure would be

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

The accountant is not precluded from disclosing a description about the reason(s) that his or her independence is impaired. The following are examples of descriptions the accountant may use:

- a. I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company;
- b. I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company; or
- c. I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (we) performed certain accounting services (the accountant may include a specific description of those services) that impaired my (our) independence.

If the accountant elects to disclose a description about the reasons his or her independence is impaired, the accountant should ensure that all reasons are included in the description.

See Compilation Exhibit B for illustrative examples of accountant's compilation reports when the accountant's independence has been impaired.

### **Accountant's Communications With the Client When the Compiled Financial Statements Are Not Expected to Be Used by a Third Party**

**.22** When the accountant submits compiled financial statements to his or her client that are not expected to be used by a third party, he or she is not required to issue a compilation report.

**.23** The accountant should include a reference on each page of the financial statements restricting their use, such as "Restricted for Management's Use Only," or "Solely for the information and use by the management of [*name of entity*] and not intended to be and should not be used by any other party."

**.24** If the accountant becomes aware that the financial statements have been distributed to third parties, the accountant should discuss the situation with the client and determine the appropriate course of action, including considering requesting that the client have the statements returned. If the accountant requests that the financial statements be returned and the client does not comply with that request within a reasonable period of time, the accountant should notify known third parties that the financial statements are not intended for third party use, preferably in consultation with his or her attorney.

### **Emphasis of a Matter**

**.25** The accountant may emphasize, in any report on financial statements, a matter disclosed in the financial statements. Such explanatory information should be presented in a separate paragraph of the accountant's report. Emphasis paragraphs are never required; they may be added solely at the accountant's discretion.

Examples of matters that the accountant may wish to emphasize are

- uncertainties.
- that the entity is a component of a larger business enterprise.
- that the entity has had significant transactions with related parties.
- unusually important subsequent events.
- accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

**.26** Because an emphasis of matter paragraph should not be used in lieu of management disclosures, the accountant should not include an emphasis paragraph in a compilation report on financial statements that omit substantially all disclosures unless the matter is disclosed in the financial statements. The accountant should refer to paragraph .20 if he or she believes that a disclosure is necessary to keep the financial statements from being misleading.

### **Departures From the Applicable Financial Reporting Framework**

**.27** An accountant who is engaged to compile financial statements may become aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements.

Paragraph .20 provides guidance to the accountant when the departure relates to the omission of substantially all disclosures in the financial statements that he or she has compiled. section 300, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*, provides guidance when the departure is called for by a prescribed form or related instructions. In all other circumstances, if the financial statements are not revised, the accountant should consider whether modification of the standard report is adequate to disclose the departure.

**.28** If the accountant concludes that modification of the standard report is appropriate, the departure should be disclosed in a separate paragraph of the report, including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known as the result of the accountant's procedures. The accountant is not required to determine the effects of a departure if management has not done so, provided that the accountant states in the report that such determination has not been made.

See Compilation Exhibit B for examples of compilation reports that disclose departures from the applicable financial reporting framework.

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

## Restricting the Use of an Accountant's Compilation Report

### *General Use and Restricted Use Reports*

**.30** The term *general use* applies to accountants' reports that are not restricted to specified parties. Accountants' reports on financial statements prepared in conformity with an applicable financial reporting framework ordinarily are not restricted regarding use. However, nothing in this section precludes the accountant from restricting the use of any report.

**.31** The term *restricted use* applies to accountants' 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.

**.32** The 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 agreements<sup>6</sup> or regulatory provisions that are not in conformity with an applicable financial reporting framework.

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

**.33** When reports are issued on subject matter or presentations based on measurement or disclosure criteria contained in contractual agreements or

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<sup>6</sup> A *contractual agreement*, as discussed in this section, is an agreement between the client and one or more third parties other than the accountant.

regulatory provisions that are not in conformity with an applicable financial reporting framework, 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. The report also should be restricted 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***

.34 If the 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***

.35 When required by law or regulation, 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 regarding use, and the general use report continues for general use.

### ***Adding Other Specified Parties***

.36 Subsequent to the completion of an engagement resulting in a restricted use report, or in the course of such an engagement, the accountant may be asked to consider adding other parties as specified parties.

.37 If the 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 .33, 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***

.38 Because of the reasons presented in paragraph .31, the 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.<sup>7</sup> This section does not preclude the 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, the 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**

**.39** An accountant's report that is restricted 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. The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.
- c. A statement that the report is not intended to be and should not be used by anyone other than the specified parties.

## **An Entity's Ability to Continue as a Going Concern**

**.40** During the performance of compilation procedures, evidence or information may come to the accountant's attention indicating that an uncertainty may exist about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being compiled (hereinafter referred to as a *reasonable period of time*). In those circumstances, the accountant should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure.

**.41** After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, the accountant should consider the reasonableness of management's conclusions, including the adequacy of the related disclosures, if applicable.

**.42** If the accountant determines that management's conclusions are unreasonable or the disclosure of the uncertainty regarding the entity's ability to continue as a going concern is not adequate, he or she should follow the guidance in paragraphs .27–.29 with respect to departures from an applicable financial reporting framework.

**.43** The accountant may emphasize an uncertainty about an entity's ability to continue as a going concern, provided that the uncertainty is disclosed in the financial statements. In such circumstances, the accountant should follow the guidance in paragraphs .25–.26.

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<sup>7</sup> 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.

## Subsequent Events

**.44** Evidence or information that a subsequent event that has a material effect on the compiled financial statements has occurred may come to the accountant's attention in the following ways:

- a. During the performance of compilation procedures
- b. Subsequent to the date of the accountant's compilation report but prior to the release of the report<sup>8</sup>

In either case, the accountant should request that management consider the possible effects on the financial statements, including the adequacy of any related disclosure, if applicable.

**.45** If the accountant determines that the subsequent event is not adequately accounted for in the financial statements or disclosed in the notes, he or she should follow the guidance in paragraphs .27–.29.

**.46** Occasionally, a subsequent event has such a material impact on the entity that the accountant may wish to include in his or her compilation report an explanatory paragraph directing the reader's attention to the event and its effects. Such an emphasis of matter paragraph may be added at the accountant's discretion, provided that the matter is disclosed in the financial statements. See paragraphs .25–.26 for additional guidance with respect to emphasis of matter paragraphs.

## Subsequent Discovery of Facts Existing at the Date of the Report

**.47** Subsequent to the date of the report on the financial statements that the accountant has compiled, he or she may become aware that facts may have existed at that date that might have caused him or her to believe that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory had the accountant then been aware of such facts.<sup>9</sup> Because of the variety of conditions that might be encountered, some of the procedures contained in this section are necessarily set out only in general terms; the specific actions to be taken in a particular case may vary with the circumstances. The accountant would be well advised to consult with his or her legal counsel when he or she encounters the circumstances to which this section may apply because of legal implications that may be involved in actions contemplated herein.

**.48** After the date of the accountant's compilation report, the accountant has no obligation to perform other compilation procedures with respect to the financial statements, unless new information comes to his or her attention. However, when the accountant becomes aware of information that relates to financial statements previously reported on by him or her, but that was not known to the accountant at the date of the report, (and that is of such a nature and from such a source that the accountant would have investigated it had it come to his or her attention during the course of the compilation), the accountant should, as soon as practicable, undertake to determine whether the information is reliable and whether the facts existed at the date of the report. The accountant should discuss the matter with his or her client at whatever management levels the accountant deems appropriate and request cooperation

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<sup>8</sup> For purposes of this section, with respect to compiled financial statements in which the accountant does not report, the submission of the compiled financial statements is the equivalent of the accountant's compilation or review report date.

<sup>9</sup> See footnote 8.



in whatever investigation may be necessary. In addition to management, the accountant may deem it appropriate to discuss the matter with those charged with governance. If the nature and effect of the matter are such that (a) the accountant's report or the financial statements would have been affected if the information had been known to the accountant at the accountant's compilation report date and had not been reflected in the financial statements and (b) the accountant believes that persons are currently using or are likely to use the financial statements, and those persons would attach importance to the information, the accountant should obtain additional or revised information. Consideration should be given to, among other things, the time elapsed since the financial statements were issued.

**.49** When the accountant has concluded that action should be taken to prevent further use of the accountant's report or the financial statements, the accountant should advise his or her client to make appropriate disclosure of the newly discovered facts and their impact on the financial statements to persons who are known to be currently using or who are likely to use the financial statements. When the client undertakes to make appropriate disclosure, the method used and the disclosure made will depend on the circumstances. For example

- a. if the effect of the subsequently discovered information on the accountant's report or the financial statements can promptly be determined, disclosure should consist of issuing, as soon as practicable, revised financial statements and, when applicable, the accountant's report. The reasons for the revision usually should be described in a note to the financial statements and, when applicable, referred to in the accountant's report. Generally, only the most recently issued compiled financial statements would need to be revised, even though the revision resulted from events that had occurred in prior years.
- b. when issuance of financial statements for a subsequent period is imminent, so that disclosure is not delayed, appropriate disclosure of the revision can be made in such statements instead of reissuing the earlier statements, pursuant to subparagraph (a).
- c. when the effect on the financial statements of the subsequently discovered information cannot be promptly determined, the issuance of revised financial statements would necessarily be delayed. In this circumstance, when it appears that the information will require a revision of the statements, appropriate disclosure would consist of notification by the client to persons who are known to be using or who are likely to use the financial statements that the statements should not be used; that revised financial statements will be issued; and, when applicable, that the accountant's report will be issued as soon as practicable.

**.50** The accountant should take whatever steps he or she deems necessary to satisfy himself or herself that the client has made the disclosures specified in paragraph .49.

**.51** If the client refuses to make the disclosures specified in paragraph .49, the accountant should notify the appropriate personnel at the highest levels within the entity, such as the manager (owner) or those charged with governance, of such refusal and of the fact that, in the absence of disclosure by the client, the accountant will take steps as outlined subsequently to prevent further use of the financial statements and, if applicable, the accountant's report. The steps that can appropriately be taken will depend upon the degree of certainty of the accountant's knowledge that persons exist who are currently using

or who will use the financial statements and, if applicable, the accountant's report and who would attach importance to the information and the accountant's ability as a practical matter to communicate with them. Unless the accountant's attorney recommends a different course of action, the accountant should take the following steps to the extent applicable:

- a. Notification to the client that the accountant's report must no longer be associated with the financial statements.
- b. Notification to the regulatory agencies having jurisdiction over the client that the accountant's report should no longer be used.
- c. Notification to each person known to the accountant to be using the financial statements that the financial statements and the accountant's report should no longer be used. In many instances, it will not be practicable for the accountant to give appropriate individual notification to stakeholders whose identities ordinarily are unknown to him or her; notification to a regulatory agency having jurisdiction over the client will usually be the only practicable way for the accountant to provide appropriate disclosure. Such notification should be accompanied by a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.

**.52** The following guidelines should govern the content of any disclosure made by the accountant in accordance with paragraph .51, to persons other than his or her client:

- a. The disclosure should include a description of the nature of the subsequently acquired information and its effect on the financial statements.
- b. The information disclosed should be as precise and factual as possible and should not go beyond that which is reasonably necessary to accomplish the purpose mentioned in the preceding subparagraph (a). Comments concerning the conduct or motives of any person should be avoided.

If the client has not cooperated, the accountant's disclosure need not detail the specific information but can merely indicate that the client has not cooperated with the accountant's attempt to substantiate information that has come to the accountant's attention and that, if the information is true, the accountant believes that the compilation report must no longer be used or associated with the financial statements. No such disclosure should be made unless the accountant believes that the financial statements are likely to be misleading and that the accountant's compilation report should not be used.

## Supplementary Information

**.53** 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 compiled both the basic financial statements and other data presented only for supplementary analysis purposes, the compilation report should refer to the other data, or the accountant can issue a separate report on the other data. If a separate report is issued, the report should state that the other data accompanying the financial statements are presented only for the purposes of additional analysis, and that the information has been compiled from information that is the representation of management,

without audit or review, and that the accountant does not express an opinion or provide any assurance on such data.

## Communicating to Management and Others

**.54** When evidence or information comes to the accountant's attention during the performance of compilation procedures that fraud or an illegal act may have occurred, that matter should be brought to the attention of the appropriate level of management. The accountant need not report matters regarding illegal acts that are clearly inconsequential and may reach agreement in advance with the entity on the nature of such items to be communicated. When matters regarding fraud or an illegal act involve senior management, the accountant should report the matter to an individual or group at a higher level within the entity, such as the manager (owner) or those charged with governance. The communication may be oral or written. If the communication is oral, the accountant should document it. When matters regarding fraud or an illegal act involve an owner of the business, the accountant should consider resigning from the engagement. Additionally, the accountant should consider consulting with his or her legal counsel whenever any evidence or information comes to his or her attention during the performance of compilation procedures that fraud or an illegal act may have occurred, unless such illegal act is clearly inconsequential.

**.55** The disclosure of any evidence or information that comes to the accountant's attention during the performance of compilation procedures that fraud or an illegal act may have occurred to parties other than the client's senior management (or those charged with governance, if applicable) ordinarily is not part of the accountant's responsibility and, ordinarily, would be precluded by the accountant's ethical or legal obligations of confidentiality. The accountant should recognize, however, that in the following circumstances, a duty to disclose to parties outside of the entity may exist:

- a. To comply with certain legal and regulatory requirements
- b. To a successor accountant when the successor decides to communicate with the predecessor accountant in accordance with section 400, *Communications Between Predecessor and Successor Accountants*, regarding acceptance of an engagement to compile or review the financial statements of a nonissuer
- c. In response to a subpoena

Because potential conflicts between the accountant's ethical and legal obligations for confidentiality of client matters may be complex, the accountant may wish to consult with legal counsel before discussing matters covered by paragraph .54 with parties outside the client.

## Change in Engagement From Audit or Review to Compilation

**.56** The accountant who has been engaged to audit the financial statements of a nonissuer in accordance with auditing standards generally accepted in the United States of America or the accountant who has been engaged to review the financial statements of a nonissuer in accordance with SSARs may, before the completion of the audit or review, be requested to change the engagement to a compilation of financial statements. A request to change the engagement may result from a change in circumstances affecting the entity's requirement for an audit or review; a misunderstanding regarding the nature of an audit, review,

or compilation; or a restriction on the scope of the audit or review, whether imposed by the client or caused by circumstances.

**.57** Before the accountant, who was engaged to perform an audit in accordance with auditing standards generally accepted in the United States of America or a review in accordance with SSARs, agrees to change the engagement to a compilation, at least the following should be considered:

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

**.58** A change in circumstances that affects the entity's requirement for an audit or review or a misunderstanding concerning the nature of an audit, review, or compilation would ordinarily be considered a reasonable basis for requesting a change in the engagement.

**.59** In considering the implications of a restriction on the scope of the audit or review, the accountant should evaluate the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory. Nevertheless, when the accountant has been engaged to audit an entity's financial statements and has been prohibited by the client from corresponding with the entity's legal counsel, the accountant ordinarily would be precluded from issuing a compilation report on the financial statements. If in an audit or a review engagement, a client does not provide the accountant with a signed representation letter, the accountant would ordinarily be precluded from issuing a compilation report on the financial statements.

**.60** In all circumstances, if the audit or review procedures are substantially complete or the cost to complete such procedures is relatively insignificant, the accountant should consider the propriety of accepting a change in the engagement.

**.61** If the accountant concludes, based upon his or her professional judgment, that reasonable justification exists to change the engagement, and if he or she complies with the standards applicable to a compilation engagement, the accountant should issue an appropriate compilation report. The report should not include reference to (a) the original engagement, (b) any audit or review procedures that may have been performed, or (c) scope limitations that resulted in the changed engagement.

## Effective Date

**.62** This section is effective for compilations of financial statements for periods ending on or after December 15, 2010. Early implementation of the requirements and guidance in paragraph .21 is permitted.

## Compilation Exhibit A—Illustrative Engagement Letters

### Standard Engagement Letter for a Compilation

*[Appropriate Salutation]*

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

We will perform the following services:

We will compile, from information you provide, the annual [*and interim, if applicable*] financial statements of XYZ Company as of and for the year ended December 31, 20XX, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services (SSARSs) issued by the American Institute of Certified Public Accountants (AICPA).

The objective of a compilation is to assist you in presenting financial information in the form of financial statements. We will utilize information that is your representation without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with [*the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*].

You are responsible for

- a. the preparation and fair presentation of the financial statements in accordance with [*the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*].
- b. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- c. preventing and detecting fraud
- d. identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- e. making all financial records and related information available to us.

We are responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.

A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion or provide any assurance regarding the financial statements being compiled.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our compilation procedures that fraud may have occurred.

In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

*If, during the period covered by the engagement letter, the accountant's independence is or will be impaired, insert the following:*

*We are not independent with respect to XYZ Company. We will disclose that we are not independent in our compilation report.*

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

Our fees for these services. . .

We will be pleased to discuss this letter with you at any time. If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

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[Signature of accountant]

Acknowledged:

XYZ Company

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President

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Date

## Engagement Letter for a Compilation of Financial Statements Not Intended for Third Party Use

*[Appropriate Salutation]*

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

We will perform the following services:

We will compile, from information you provide, the *[monthly, quarterly, or other frequency]* financial statements of XYZ Company as of and for the year ended December 31, 20XX.

The objective of a compilation is to assist you in presenting financial information in the form of financial statements. We will utilize information that is your representation without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with *[the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]*.

You are responsible for

- a. the preparation and fair presentation of the financial statements in accordance with *[the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]*.
- b. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- c. preventing and detecting fraud.
- d. identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- e. making all financial records and related information available to us.

We are responsible for conducting the engagement in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion or provide any assurance regarding the financial statements being compiled.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our compilation procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

The financial statements will not be accompanied by a report and are for management's use only and are not to be used by a third party.

*If, during the period covered by the engagement letter, the accountant's independence is or will be impaired, insert the following:*

*We are not independent with respect to XYZ Company.*

Our fees for these services. . .

We will be pleased to discuss this letter with you at any time. If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

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*[Signature of accountant]*

Acknowledged:

XYZ Company

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President

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Date



.64

## Compilation Exhibit B—Illustrative Compilation Reports

*Standard compilation report on financial statements prepared in accordance with accounting principles generally accepted in the United States of America*

### Accountant's Compilation Report

*[Appropriate Salutation]*

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

*[Signature of accounting firm or accountant, as appropriate]*

*[Date]*

*Standard accountant's compilation report on financial statements prepared in accordance with the cash basis of accounting*

### Accountant's Compilation Report

*[Appropriate Salutation]*

I (we) have compiled the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 20XX, and the related statement of revenue collected and expenses paid for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis of accounting.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

*[Signature of accounting firm or accountant, as appropriate]*

*[Date]*

*Paragraph the accountant may add after the conclusion paragraph when management has elected to omit substantially all disclosures, but the financial statements are otherwise in conformity with accounting principles generally accepted in the United States of America*

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

*Paragraph the accountant may add after the conclusion paragraph when management has elected to omit substantially all disclosures, but the financial statements are otherwise in conformity with the income tax basis of accounting*

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

*Accountant's compilation report on financial statements prepared in accordance with accounting principles generally accepted in the United States of America when the accountant's independence has been impaired, and the accountant determines to not disclose the reason for the independence impairment*

### **Accountant's Compilation Report**

*[Appropriate Salutation]*

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

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

*[Signature of accounting firm or accountant, as appropriate]*

*[Date]*

*Accountant's compilation report on financial statements prepared in accordance with accounting principles generally accepted in the United States of America when the accountant's independence has been impaired due to the accountant having a financial interest in the client, and the accountant decides to disclose the reason for the independence impairment*

### **Accountant's Compilation Report**

*[Appropriate Salutation]*

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

I am (we are) not independent with respect to XYZ Company as during the year ended December 31, 20XX, I (a member of the engagement team) had a direct financial interest in XYZ Company.

*[Signature of accounting firm or accountant, as appropriate]*

*[Date]*

*Accountant's compilation report on financial statements disclosing a departure from accounting principles generally accepted in the United States of America*

### **Accountant's Compilation Report**

*[Appropriate Salutation]*

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information

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

A statement of cash flows for the year ended December 31, 20XX, has not been presented. Accounting principles generally accepted in the United States of America require that such a statement be presented when financial statements purport to present financial position and results of operations.<sup>1</sup>

[Date]

**AR \$80.64**

## AR Section 90

### *Review of Financial Statements*

Issue date, unless otherwise indicated: December 2009

Source: SSARS No. 19

**.01** This section establishes standards and provides guidance on reviews of financial statements. The accountant is required to comply with the provisions of this section whenever he or she has been engaged to review financial statements, except for reviews of interim financial information if the following are true:

- a. The entity's latest annual financial statements have been audited by the accountant or a predecessor
- b. The accountant has been engaged to audit the entity's current year financial statements, or the accountant audited the entity's latest annual financial statements and expects to be engaged to audit the current year financial statements
- c. The client prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the annual financial statements

Accountants engaged to perform reviews of interim financial information when the conditions in (a)–(c) are met should perform such reviews in accordance with Statement on Auditing Standards No. 116, *Interim Financial Information* (AU sec. 722).

**.02** The accountant is precluded from performing a review engagement if the accountant's independence is impaired for any reason. In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA's Code of Professional Conduct.

### **Establishing an Understanding**

**.03** The accountant should establish an understanding with management regarding the services to be performed for review engagements<sup>1</sup> and should document the understanding through a written communication with management. Such an understanding reduces the risk that either the accountant or management may misinterpret the needs or expectations of the other party. For example, it reduces the risk that management may inappropriately rely on the accountant to protect the entity against certain risks or to perform certain functions that are management's responsibility. The accountant should ensure that the understanding includes the objectives of the engagement, management's responsibilities, the accountant's responsibilities, and the limitations of the engagement. In some cases, the accountant may establish such understanding with those charged with governance.

**.04** An understanding with management and, if applicable, those charged with governance regarding a review of financial statements should include the following matters:

- The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial

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<sup>1</sup> See paragraph .28 of QC section 10, *A Firm's System of Quality Control*.

statements in order for the statements to be in conformity with the applicable financial reporting framework.

- Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework
- Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- Management is responsible to prevent and detect fraud.
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant.
- Management will provide the accountant, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.
- The accountant is responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.
- A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management.
- A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion regarding the financial statements as a whole.
- The engagement cannot be relied upon to disclose errors, fraud,<sup>2</sup> or illegal acts<sup>3</sup>
- The accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of review procedures that fraud or an illegal act may have occurred.<sup>4</sup> The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may

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<sup>2</sup> For purposes of this section, *fraud* is an intentional act that results in a misstatement in reviewed financial statements.

<sup>3</sup> For purposes of this section, *illegal acts* are violations of laws or government regulations, excluding fraud.

<sup>4</sup> Whether an act is, in fact, fraudulent or illegal is a determination that is normally beyond the accountant's professional competence. An accountant, in reporting on financial statements, presents himself or herself as one who is proficient in accounting and review services. The accountant's training, experience, and understanding of the client and its industry may provide a basis for recognition that some client acts coming to his or her attention may be fraudulent or illegal. However, the determination as to whether a particular act is fraudulent or illegal would generally be based on the advice of an informed expert qualified to practice law or may have to await final determination by a court of law.

reach agreement in advance with the entity on the nature of any such matters to be communicated.

These matters should be communicated in the form of an engagement letter. An example of an engagement letter for a review of financial statements is presented in Review Exhibit A, "Illustrative Engagement Letter."

**.05** An understanding with management or, if applicable, those charged with governance also may include other matters, such as the following:

- Fees and billings
- Any limitation of or other arrangements regarding the liability of the accountant or the client, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements)
- Conditions under which access to review documentation may be granted to others
- Additional services to be provided relating to regulatory requirements

**.06** The engagement letter also should address the following additional matters if applicable:

- Material departures from the applicable financial reporting framework may exist, and the effects of those departures, if any, on the financial statements may not be disclosed.
- Reference to supplementary information.

## Review Performance Requirements

**.07** The performance of a review engagement requires that the accountant perform procedures designed to accumulate review evidence that will provide a reasonable basis for obtaining limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. The accountant should apply professional judgment in determining the specific nature, timing, and extent of review procedures. Such procedures should be tailored based on the accountant's understanding of the industry in which the client operates and the accountant's knowledge of the entity. Review evidence obtained through the performance of analytical procedures and inquiry will ordinarily provide the accountant with a reasonable basis for obtaining limited assurance. However, the accountant should perform additional procedures if the accountant determines such procedures to be necessary to obtain limited assurance that the financial statements are not materially misstated.

## Understanding of the Industry

**.08** The accountant should possess an understanding of the industry in which the client operates, including the accounting principles and practices generally used in the industry sufficient to assist the accountant with determining the specific nature, timing, and extent of review procedures to be performed.

**.09** The requirement that the accountant possess a level of knowledge of the industry in which the entity operates does not prevent the accountant from accepting a review engagement for an entity in an industry with which the accountant has no previous experience. It does, however, place upon the accountant a responsibility to obtain the required level of knowledge. The accountant

may do so, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals knowledgeable about the industry.

## Knowledge of the Client

**.10** The accountant should obtain knowledge about the client sufficient to assist the accountant with determining the specific nature, timing, and extent of review procedures to be performed. That knowledge should include the following:

- An understanding of the client's business
- An understanding of the accounting principles and practices used by the client

**.11** In obtaining an understanding of the client's business, the accountant should have a general understanding of the client's organization; its operating characteristics; and the nature of its assets, liabilities, revenues, and expenses. The accountant's understanding of an entity's business is ordinarily obtained through experience with the entity or its industry and inquiry of the entity's personnel.

**.12** The accountant should understand the accounting principles and practices used by the client in measuring, recognizing, recording, and disclosing all significant accounts and disclosures in the financial statements. The accountant may obtain an understanding of the accounting policies and procedures used by management through inquiry, the review of client prepared documents, or experience with the client.

**.13** In obtaining this understanding of the client's accounting policies and practices, the accountant should be alert to unusual accounting policies and procedures that come to the accountant's attention as a result of his or her knowledge of the industry.

## Designing and Performing Review Procedures

**.14** Based on

- a. the accountant's understanding of the industry,
- b. his or her knowledge of the client, and
- c. his or her awareness of the risk that he or she may unknowingly fail to modify the accountant's review report on financial statements that are materially misstated,

the accountant should design and perform analytical procedures and make inquiries and perform other procedures, as appropriate, to accumulate review evidence in obtaining limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.

**.15** The accountant should focus the analytical procedures and inquiries in those areas where the accountant believes there are increased risks of misstatements. The results of the accountant's analytical procedures and inquiries may modify the accountant's risk awareness. For example, the response to an inquiry that cash has not been reconciled for several months may revise the accountant's awareness of risks relative to the cash account.



## Analytical Procedures

**.16** Understanding financial and nonfinancial relationships is essential in evaluating the results of analytical procedures, and generally requires knowledge of the client and the industry in which the client operates. An understanding of the purposes of analytical procedures and the limitations of those procedures also is important. Accordingly, the identification of the relationships and types of data used, as well as conclusions reached when recorded amounts are compared to expectations, requires judgment by the accountant.

**.17** Analytical procedures involve comparisons of expectations developed by the accountant to recorded amounts or ratios developed from recorded amounts. The accountant develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the accountant's understanding of the industry in which the client operates and knowledge of the client. Following are examples of sources of information for developing expectations:

- a. Financial information for comparable prior period(s), giving consideration to known changes
- b. Anticipated results (for example, budgets or forecasts, including extrapolations from interim or annual data)
- c. Relationships among elements of financial information within the period
- d. Information regarding the industry in which the client operates (for example, gross margin information)
- e. Relationships of financial information with relevant nonfinancial information (for example, payroll costs to number of employees)

Analytical procedures may be performed at the financial statement level or at the detailed account level. The nature, timing, and extent of the analytical procedures are a matter of professional judgment.

**.18** If analytical procedures performed identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the accountant should investigate these differences by inquiring of management and performing other procedures as necessary in the circumstances. Review evidence relevant to management's responses may be obtained by evaluating those responses, taking into account the accountant's understanding of the entity and its environment, along with other review evidence obtained during the course of the review. Although the accountant is not required to corroborate management's responses with other evidence, the accountant may need to perform other procedures when, for example, management is unable to provide an explanation, or the explanation, together with review evidence obtained relevant to management's response, is not considered adequate.

## Inquiries and Other Review Procedures

**.19** The accountant should consider performing the following:

- a. Inquire of members of management who have responsibility for financial and accounting matters concerning the following:
  - i. Whether the financial statements have been prepared in conformity with the applicable financial reporting framework

- ii. The entity's accounting principles and practices and the methods followed in applying them and the entity's procedures for recording, classifying, and summarizing transactions and accumulating information for disclosure in the financial statements
- iii. Unusual or complex situations that may have an effect on the financial statements
- iv. Significant transactions occurring or recognized near the end of the reporting period
- v. The status of uncorrected misstatements identified during the previous engagement
- vi. Questions that have arisen in the course of applying the review procedures
- vii. Events subsequent to the date of the financial statements that could have a material effect on the financial statements
- viii. Their knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements (for example, communications received from employees, former employees, or others)
- ix. Significant journal entries and other adjustments
- x. Communications from regulatory agencies

In addition to members of management who have responsibility for financial and accounting matters, the accountant may determine to direct inquiries to others within the entity and those charged with governance, if appropriate.

- b. Inquire concerning actions taken at meetings of stockholders, the board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements
- c. Read the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with the applicable financial reporting framework
- d. Obtain reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees<sup>5</sup>

**.20** The accountant ordinarily is not required to corroborate management's responses with other evidence; however, the accountant should consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the client's business and the industry in which it operates.

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<sup>5</sup> The financial statements of the reporting entity ordinarily include an accounting for all significant components, such as unconsolidated subsidiaries and investees. If other accountants are engaged to audit or review the financial statements of such components, the accountant will require reports from the other accountants as a basis, in part, for the accountant's review report with respect to the review of the financial statements of the reporting entity. The accountant may decide to make reference to the work of other accountants in the accountant's review report on the financial statements. If such reference is made, the report should indicate the magnitude of the portion of the financial statements audited or reviewed by the other accountants.

## Incorrect, Incomplete, or Otherwise Unsatisfactory Information

**.21** During the performance of review procedures, the accountant may become aware that information coming to his or her attention is incorrect, incomplete, or otherwise unsatisfactory. In such instances, the accountant should request that management consider the effect of these matters on the financial statements and communicate the results of its consideration to the accountant. The accountant should consider the results communicated to the accountant by management and the effect, if any, on the accountant's review report. If the accountant believes the financial statements may be materially misstated, the accountant should perform additional procedures deemed necessary to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. If the accountant concludes that the financial statements are materially misstated, the accountant should follow the guidance in paragraphs .34–.36 with respect to departures from the applicable financial reporting framework.

## Management Representations

**.22** Written representations are required from management for all financial statements and periods covered by the accountant's review 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. 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 for all such periods. 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. Written representations from management ordinarily confirm representations explicitly or implicitly given to the accountant, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations. The accountant should request that management provide a written representation related to the following matters:

- a. Management's acknowledgment of its responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework
- b. Management's belief that the financial statements are fairly presented in accordance with the applicable financial reporting framework
- c. Management's acknowledgement of its responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements
- d. Management's acknowledgement of its responsibility to prevent and detect fraud
- e. Knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, including any communications received from employees, former employees, or others
- f. Management's full and truthful response to all inquiries
- g. Completeness of information
- h. Information concerning subsequent events

The representation letter ordinarily should be tailored to include additional appropriate representations from management relating to matters specific to the entity's business or industry.<sup>6</sup> An illustrative representation letter is presented in Review Exhibit B, "Illustrative Representation Letter."

**.23** Circumstances exist in which the accountant should consider obtaining an updating representation letter from management (for example, the accountant obtains a management representation letter after completion of inquiry and analytical review procedures, but does not issue the review report for a significant period of time thereafter, or a material subsequent event occurs after the completion of inquiry and analytical review procedures, including obtaining the original management representation letter, but before the issuance of the report on the reviewed financial statements). In addition, if a predecessor accountant is requested to reissue the report on the financial statements of a prior period and those financial statements are to be presented on a comparative basis with reviewed financial statements of a subsequent period, the predecessor accountant should obtain an updating representation letter from the management of the former client.<sup>7</sup> The updating management representation letter should state (a) whether any information has come to management's attention that would cause management to believe that any of the previous representations should be modified and (b) whether any events have occurred subsequent to the balance-sheet date of the latest financial statements reported on by the accountant that would require adjustment to or disclosure in those financial statements. An illustrative updating management representation letter is contained in Review Exhibit C, "Illustrative Updating Management Representation Letter."

**.24** 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, management's representations set forth in the management representation letter should be made as of the date of the accountant's review report. The accountant need not be in physical receipt of the management representation letter as of the date of the accountant's review report, provided that management has acknowledged that they will sign the representation letter without modification and it is received prior to the release of the report. The management representation letter should be addressed to the accountant. The letter should be signed by those members of management whom the accountant believes are responsible for and knowledgeable about (directly or through others in the organization) 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.

## Documentation in a Review Engagement

**.25** The accountant should prepare documentation in connection with each review engagement in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of review procedures performed); the review evidence obtained and its source; and the conclusions reached. Documentation does the following:

- a. Provides the principal support for the representation in the accountant's review report that the accountant performed the review in accordance with SSARs

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<sup>6</sup> The accountant is not precluded from obtaining representations regarding services performed in addition to the review engagement.

<sup>7</sup> See paragraphs .20–.24 of section 200, *Reporting on Comparative Financial Statements*.

- b. Provides the principal support for the conclusion that 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 the applicable financial reporting framework

**.26** The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant's professional judgment. The accountant's documentation should include the following:

- The engagement letter documenting the understanding with the client.
- The analytical procedures performed, including the following:
  - The expectations, when the expectations are not otherwise readily determinable from the documentation of the work performed, and the factors considered in the development of the expectations
  - Results of the comparison of the expectations to the recorded amounts or ratios developed from recorded amounts
  - Management's responses to the accountant's inquiries regarding fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount
- Any additional review procedures performed in response to significant unexpected differences arising from analytical procedures and the results of such additional procedures.
- The significant matters covered in the accountant's inquiry procedures and the responses thereto. The accountant may document the matters covered by the accountant's inquiry procedures and the responses thereto through a memorandum, checklist, or other means.
- Any findings or issues that, in the accountant's judgment, are significant (for example, the results of review procedures that indicate the financial statements could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached).
- Significant unusual matters that the accountant considered during the performance of the review procedures, including their disposition.
- Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention.
- The representation letter.

The accountant is not precluded from supporting the review report by other means in addition to the review documentation. Such other means might include written documentation contained in other engagement files (for example, compilation or nonattest services) or quality control files (for example, consultation files) and, in limited situations, oral explanations. Oral explanations on their own do not represent sufficient support for the work the accountant performed or conclusions the accountant reached but may be used by the accountant to clarify or explain information contained in the documentation.

## Reporting on the Financial Statements

**.27** Financial statements reviewed by an accountant should be accompanied by a written report. The accountant's objective in reporting on the financial statements is to prevent misinterpretation of the degree of responsibility the accountant is assuming when his or her name is associated with the financial statements.

**.28** The basic elements of the report are as follows:

- a. *Title.* The accountant's review report should have a title that clearly indicates that it is the accountant's review report and includes the word *independent*. An appropriate title would be "Independent Accountant's Review Report."
- b. *Addressee.* The accountant's report should be addressed as required by the circumstances of the engagement.
- c. *Introductory paragraph.* The introductory paragraph in the accountant's report should
  - i. identify the entity whose financial statements have been reviewed;
  - ii. state that the financial statements have been reviewed;
  - iii. identify the financial statements; that have been reviewed;
  - iv. specify the date or period covered by the financial statements;
  - v. include a statement that a review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners); and
  - vi. include 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 as a whole, and that, accordingly, the accountant does not express such an opinion.
- d. *Management's responsibility for the financial statements.* A statement that management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- e. *Accountant's responsibility.* A statement that the accountant's responsibility is to conduct the review in accordance with SSARs issued by the AICPA.  
 A statement that those standards require the accountant to perform the procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements.  
 A statement that the accountant believes that the results of his or her procedures provide a reasonable basis for his or her report.
- f. *Results of engagement.* A statement that, based on his or her review, 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 the applicable financial reporting framework, other than those modifications, if any, indicated in the report.

- g. *Signature of the accountant.* The manual or printed signature of the accounting firm or the accountant as appropriate.
- h. *Date of the accountant's report.* The date of the review report (the accountant's review report should not be dated earlier than the date on which the accountant has accumulated review evidence sufficient to provide a reasonable basis for concluding that the accountant has obtained limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework).

See Review Exhibit D, "Illustrative Review Reports," for examples of review reports.

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

**.30** When the accountant is unable to perform the inquiry and analytical procedures he or she considers necessary to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework, or the client does not provide the accountant with a representation letter, the review will be incomplete. A review that is incomplete does not provide an adequate basis for issuing a review report. In such a situation, the accountant should consider the matters discussed in paragraphs .56–.61 of section 80 in deciding whether it is appropriate to issue a compilation report on the financial statements.

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

**.32** Financial statements prepared in accordance with an OCBOA are not considered appropriate in form unless the financial statements include

- a description of the OCBOA, including a summary of significant accounting policies and a description of the primary differences from GAAP. The effects of the differences need not be quantified.
- informative disclosures similar to those required by GAAP if the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.

## Emphasis of a Matter

**.33** The accountant may emphasize, in any report on financial statements, a matter disclosed in the financial statements. Such explanatory information should be presented in a separate paragraph of the accountant's report. Emphasis paragraphs are never required; they may be added solely at the accountant's discretion.

Examples of matters that the accountant may wish to emphasize are

- uncertainties.
- that the entity is a component of a larger business enterprise.
- that the entity has had significant transactions with related parties.
- unusually important subsequent events.
- accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

## Departures From the Applicable Financial Reporting Framework

**.34** An accountant who is engaged to review financial statements may become aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements. If the financial statements are not revised, the accountant should consider whether modification of the standard report is adequate to disclose the departure.

**.35** If the accountant concludes that modification of the standard report is appropriate, the departure should be disclosed in a separate paragraph of the report, including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known as the result of the accountant's procedures. The accountant is not required to determine the effects of a departure if management has not done so, provided that the accountant states in the report that such determination has not been made.

See Review Exhibit D for examples of review reports that disclose departures from the applicable financial reporting framework.

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

## Restricting the Use of an Accountant's Review Report

### *General Use and Restricted Use Reports*

**.37** The term *general use* applies to accountants' reports that are not restricted to specified parties. Accountants' reports on financial statements prepared in conformity with an applicable financial reporting framework ordinarily are not restricted regarding use. However, nothing in this section precludes the accountant from restricting the use of any report.

**.38** The term *restricted use* applies to accountants' 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.

**.39** The 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 agreements<sup>8</sup> or regulatory provisions that are not in conformity with an applicable financial reporting framework.

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

.40 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 an applicable financial reporting framework, 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, subject matter, or 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***

.41 If the 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***

.42 When required by law or regulation, 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 regarding use, and the general use report continues for general use.

***Adding Other Specified Parties***

.43 Subsequent to the completion of an engagement resulting in a restricted use report or in the course of such an engagement, the accountant may be asked to consider adding other parties as specified parties.

.44 If the 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 .40, 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

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<sup>8</sup> A *contractual agreement*, as discussed in this section, is an agreement between the client and one or more third parties other than the accountant.

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

.45 Because of the reasons presented in paragraph .38, the 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.<sup>9</sup> This section does not preclude the 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, the 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

.46 An accountant's report that is restricted 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. The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.
- c. A statement that the report is not intended to be and should not be used by anyone other than the specified parties.

## An Entity's Ability to Continue as a Going Concern

.47 During the performance of review procedures, evidence or information may come to the accountant's attention indicating that there may be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being reviewed (hereinafter referred to as a *reasonable period of time*). In those circumstances, the accountant should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure.

.48 After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, the accountant should consider the reasonableness of management's conclusions, including the adequacy of the related disclosures, if applicable.

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<sup>9</sup> 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.

**.49** If the accountant determines that management's conclusions are unreasonable or the disclosure of the uncertainty regarding the entity's ability to continue as a going concern is not adequate, he or she should follow the guidance in paragraphs .34–.36 with respect to departures from the applicable financial reporting framework.

**.50** The accountant may emphasize an uncertainty about an entity's ability to continue as a going concern, provided that the uncertainty is disclosed in the financial statements. In such circumstances, the accountant should follow the guidance in paragraph .33.

## Subsequent Events

**.51** Evidence or information that a subsequent event that has a material effect on the reviewed financial statements has occurred may come to the accountant's attention in the following ways:

- a. During the performance of review procedures
- b. Subsequent to the date of the accountant's review report but prior to the release of the report

In either case, the accountant should request that management consider the possible effects on the financial statements, including the adequacy of any related disclosure, if applicable.

**.52** If the accountant determines that the subsequent event is not adequately accounted for in the financial statements or disclosed in the notes, he or she should follow the guidance in paragraphs .34–.36.

**.53** Occasionally, a subsequent event has such a material impact on the entity that the accountant may wish to include in his or her review report an explanatory paragraph directing the reader's attention to the event and its effects. Such an emphasis of matter paragraph may be added at the accountant's discretion, provided that the matter is disclosed in the financial statements. See paragraph .33 for additional guidance with respect to emphasis of matter paragraphs.

## Subsequent Discovery of Facts Existing at the Date of the Report

**.54** Subsequent to the date of the report on the financial statements that the accountant has reviewed, he or she may become aware that facts may have existed at that date that might have caused him or her to believe that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory had the accountant then been aware of such facts. Because of the variety of conditions that might be encountered, some of the procedures contained in this section are necessarily set out only in general terms; the specific actions to be taken in a particular case may vary with the circumstances. The accountant would be well advised to consult with his or her legal counsel when he or she encounters the circumstances to which this section may apply because of legal implications that may be involved in actions contemplated herein.

**.55** After the date of the accountant's review report, the accountant has no obligation to perform other review procedures with respect to the financial statements unless new information comes to his or her attention. However, when the accountant becomes aware of information that relates to financial statements previously reported on by him or her but that was not known to the accountant at the date of the report (and that is of such a nature and from

such a source that the accountant would have investigated it had it come to his or her attention during the course of the review), the accountant should, as soon as practicable, undertake to determine whether the information is reliable and whether the facts existed at the date of the report. The accountant should discuss the matter with his or her client at whatever management levels the accountant deems appropriate and request cooperation in whatever investigation may be necessary. In addition to management, the accountant may deem it appropriate to discuss the matter with those charged with governance. If the nature and effect of the matter are such that (a) the accountant's report or the financial statements would have been affected if the information had been known to the accountant at the accountant's review report date and had not been reflected in the financial statements and (b) the accountant believes that persons currently using or likely to use the financial statements exist who would attach importance to the information, the accountant should perform the additional procedures deemed necessary to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. Consideration should be given to, among other things, the time elapsed since the financial statements were issued.

**.56** When the accountant has concluded that action should be taken to prevent further use of the accountant's report or the financial statements, the accountant should advise his or her client to make appropriate disclosure of the newly discovered facts and their impact on the financial statements to persons who are known to be currently using or who are likely to use the financial statements. When the client undertakes to make appropriate disclosure, the method used and the disclosure made will depend on the circumstances. For example

- a. if the effect of the subsequently discovered information on the accountant's report or the financial statements can promptly be determined, disclosure should consist of issuing, as soon as practicable, revised financial statements and, when applicable, the accountant's report. The reasons for the revision usually should be described in a note to the financial statements and, when applicable, referred to in the accountant's report. Generally, only the most recently issued reviewed financial statements would need to be revised, even though the revision resulted from events that had occurred in prior years.
- b. when issuance of financial statements for a subsequent period is imminent, so that disclosure is not delayed, appropriate disclosure of the revision can be made in such statements instead of reissuing the earlier statements, pursuant to subparagraph (a).
- c. when the effect on the financial statements of the subsequently discovered information cannot be promptly determined, the issuance of revised financial statements would necessarily be delayed. In this circumstance, when it appears that the information will require a revision of the statements, appropriate disclosure would consist of notification by the client to persons who are known to be using or who are likely to use the financial statements that the statements should not be used; that revised financial statements will be issued; and, when applicable, that the accountant's report will be issued as soon as practicable.

**.57** The accountant should take whatever steps he or she deems necessary to satisfy himself or herself that the client has made the disclosures specified in paragraph .56.

**.58** If the client refuses to make the disclosures specified in paragraph .56, the accountant should notify the appropriate personnel at the highest levels within the entity, such as the manager (owner) or those charged with governance, of such refusal and of the fact that, in the absence of disclosure by the client, the accountant will take steps as outlined here to prevent further use of the financial statements and the accountant's report. The steps that can appropriately be taken will depend upon the degree of certainty of the accountant's knowledge that persons exist who are currently using or who will use the financial statements and the accountant's report and who would attach importance to the information. The steps that can be taken also will depend on the accountant's ability as a practical matter to communicate with these persons. Unless the accountant's attorney recommends a different course of action, the accountant should take the following steps to the extent applicable:

- a. Notification to the client that the accountant's report must no longer be associated with the financial statements.
- b. Notification to the regulatory agencies having jurisdiction over the client that the accountant's report should no longer be used.
- c. Notification to each person known to the accountant to be using the financial statements that the financial statements and the accountant's report should no longer be used. In many instances, it will not be practicable for the accountant to give appropriate individual notification to stakeholders whose identities ordinarily are unknown to him or her; notification to a regulatory agency having jurisdiction over the client will usually be the only practicable way for the accountant to provide appropriate disclosure. Such notification should be accompanied by a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.

**.59** The following guidelines should govern the content of any disclosure made by the accountant, in accordance with paragraph .58, to persons other than his or her client:

- a. The disclosure should include a description of the nature of the subsequently acquired information and its effect on the financial statements.
- b. The information disclosed should be as precise and factual as possible and should not go beyond that which is reasonably necessary to accomplish the purpose mentioned in the preceding subparagraph (a). Comments concerning the conduct or motives of any person should be avoided.

If the client has not cooperated, the accountant's disclosure need not detail the specific information but can merely indicate that the client has not cooperated with the accountant's attempt to substantiate information that has come to the accountant's attention and that, if the information is true, the accountant believes that the review report must no longer be used or associated with the financial statements. No such disclosure should be made unless the accountant believes that the financial statements are likely to be misleading and that the accountant's review report should not be used.

## Supplementary Information

**.60** 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, an explanation should be included in the review report or in a separate report on the other data. The report should state that the review has been made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework and that either

- the other data accompanying the financial statements are presented only for purposes of additional analysis 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
- the other data accompanying the financial statements are presented only for purposes of additional analysis 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 provide any assurance on such data.

## Communicating to Management and Others

**.61** When evidence or information comes to the accountant's attention during the performance of review procedures that fraud or an illegal act may have occurred, that matter should be brought to the attention of the appropriate level of management. The accountant need not report matters regarding illegal acts that are clearly inconsequential and may reach agreement in advance with the entity on the nature of such items to be communicated. When matters regarding fraud or an illegal act involve senior management, the accountant should report the matter to an individual or group at a higher level within the entity, such as the manager (owner) or those charged with governance. The communication may be oral or written. If the communication is oral, the accountant should document it. When matters regarding fraud or an illegal act involve an owner of the business, the accountant should consider resigning from the engagement. Additionally, the accountant should consider consulting with his or her legal counsel whenever any evidence or information comes to his or her attention during the performance of review procedures that fraud or an illegal act may have occurred, unless such illegal act is clearly inconsequential.

**.62** The disclosure of any evidence or information that comes to the accountant's attention during the performance of review procedures that fraud or an illegal act may have occurred to parties other than the client's senior management (or those charged with governance, if applicable) ordinarily is not part of the accountant's responsibility and, ordinarily, would be precluded by the accountant's ethical or legal obligations of confidentiality. The accountant should recognize, however, that in the following circumstances, a duty to disclose to parties outside of the entity may exist:

- a. To comply with certain legal and regulatory requirements
- b. To a successor accountant when the successor decides to communicate with the predecessor accountant, in accordance with

section 400, regarding acceptance of an engagement to compile or review the financial statements of a nonissuer

- c. In response to a subpoena

Because potential conflicts between the accountant's ethical and legal obligations for confidentiality of client matters may be complex, the accountant may wish to consult with legal counsel before discussing matters covered by paragraph .61 with parties outside the client.

## Change in Engagement From Audit to Review

**.63** The accountant who has been engaged to audit the financial statements of a nonissuer in accordance with auditing standards generally accepted in the United States of America may, before the completion of the audit, be requested to change the engagement to a review of financial statements. A request to change the engagement may result from a change in circumstances affecting the entity's requirement for an audit, a misunderstanding regarding the nature of an audit or review, or a restriction.

**.64** Before the accountant, who was engaged to perform an audit in accordance with auditing standards generally accepted in the United States of America, agrees to change the engagement to a review, at least the following should be considered:

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

**.65** A change in circumstances that affects the entity's requirement for an audit, or a misunderstanding concerning the nature of an audit or review would ordinarily be considered a reasonable basis for requesting a change in the engagement.

**.66** In considering the implications of a restriction on the scope of the audit, the accountant should evaluate the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory. Nevertheless, when the accountant has been engaged to audit an entity's financial statements and has been prohibited by the client from corresponding with the entity's legal counsel, the accountant ordinarily would be precluded from issuing a review report on the financial statements.

**.67** In all circumstances, if the audit procedures are substantially complete or the cost to complete such procedures is relatively insignificant, the accountant should consider the propriety of accepting a change in the engagement.

**.68** If the accountant concludes, based upon his or her professional judgment, that there is reasonable justification to change the engagement and if he or she complies with the standards applicable to a review engagement, the accountant should issue an appropriate review report. The report should not include reference to (a) the original engagement, (b) any audit procedures that may have been performed, or (c) scope limitations that resulted in the changed engagement.

## Effective Date

**.69** This section is effective for reviews of financial statements for periods ending on or after December 15, 2010.

## Review Exhibit A—Illustrative Engagement Letter

[*Appropriate Salutation*]

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

We will perform the following services:

We will review the financial statements of XYZ Company as of and for the year ended December 31, 20XX, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services (SSARSS) issued by the American Institute of Certified Public Accountants (AICPA).

The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with [*the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*].

You are responsible for

- a. the preparation and fair presentation of the financial statements in accordance with [*the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*].
- b. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- c. preventing and detecting fraud.
- d. identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- e. making all financial records and related information available to us.
- f. providing us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

We are responsible for conducting the engagement in accordance with SSARSS issued by the AICPA.

A review includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion regarding the financial statements as a whole.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our review procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our review procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.



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

Our fees for these services. . .

We will be pleased to discuss this letter with you at any time. If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

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*[Signature of accountant]*

Acknowledged:

XYZ Company

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President

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Date

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## Review Exhibit B—Illustrative Representation Letter

The following representation letter is included for illustrative purposes only. The accountant may decide, based on the circumstances of the review engagement or the industry in which the entity operates, that other matters should be specifically included in the letter or that some of the representations included in the illustrative letter are not necessary.

[Date]<sup>1</sup>

To [the Accountant]

We are providing this letter in connection with your review of the [identification of financial statements] of [name of entity] as of [dates (for example, December 31, 20X1, and December 31, 20X2)] and for the [periods of review (for example, for the years then ended)] for the purpose of obtaining limited assurance that that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]. We confirm that we are responsible for the fair presentation of the financial statements in accordance with [the applicable financial reporting framework] and the selection and application of the accounting policies.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person using the information would be changed or influenced by the omission or misstatement.<sup>2</sup>

We confirm, to the best of our knowledge and belief, (as of [the date of the accountant's review report]) the following representations made to you during your review:

1. The financial statements referred to previously are fairly presented in accordance with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].
2. We have made the following available to you
  - a. financial records and related data.
  - b. minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. No material transactions exist that have not been properly recorded in the accounting records underlying the financial statements.
4. We acknowledge our responsibility for the preparation and fair presentation of the financial statements in accordance with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].

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<sup>1</sup> This date should be the date that the client presents and signs the letter. In no event should the letter be presented and signed prior to the date of the accountant's review report.

<sup>2</sup> The qualitative discussion of materiality used in this letter is adapted from Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Information*.

5. We acknowledge our responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
6. We acknowledge our responsibility to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, including any communications received from employees, former employees, or others.
8. We have no plans or intentions that may materially affect the carrying amounts or classification of assets and liabilities.
9. No material losses exist (such as from obsolete inventory or purchase or sales commitments) that have not been properly accrued or disclosed in the financial statements.
10. None of the following exist:
  - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency
  - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion that must be disclosed in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 450, *Contingencies*.<sup>3</sup>
  - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450.
11. The company has satisfactory title to all owned assets, and no liens or encumbrances on such assets exist, nor has any asset been pledged as collateral, except as disclosed to you and reported in the financial statements.
12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
13. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the company is contingently liable.
  - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, *Risks and Uncertainties*. [*Significant estimates are estimates at the balance sheet date*]

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<sup>3</sup> If management has not consulted a lawyer regarding litigation, claims, and assessments, the representation might be worded as follows:

We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Financial Accounting Standards Board *Accounting Standards Codification* 450, *Contingencies*, and we have not consulted a lawyer concerning litigation, claims, or assessments.

*that could change materially with the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.]*

*[Add additional representations that are unique to the entity's business or industry. See the following for additional illustrative representations.]*

14. We are in agreement with the adjusting journal entries you have recommended, and they have been posted to the company's accounts (if applicable).
15. To the best of our knowledge and belief, no events have occurred subsequent to the balance-sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.<sup>4</sup>
16. We have responded fully and truthfully to all inquiries made to us by you during your review.

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*[Name of Owner or Chief Executive Officer and Title]*

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*[Name of Chief Financial Officer and Title, where applicable]*

Representation letters ordinarily should be tailored to include additional appropriate representations from management relating to matters specific to the entity's business or industry. The following is a list of additional representations that may be appropriate in certain situations. This list is not intended to be all-inclusive. The accountant should consider the effects of pronouncements issued subsequent to the issuance of this section.

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<sup>4</sup> If the accountant dual dates his or her report, the accountant should consider whether obtaining additional representations relating to the subsequent event is appropriate.

*General*

<i>Condition</i>	<i>Illustrative Examples</i>
The effect of a new accounting principle is not known.	We have not completed the process of evaluating the impact that will result from adopting Financial Accounting Standards Board (FASB) <i>Accounting Standards Codification</i> (ASC) [XXX, Title], as discussed in note [X]. The company is therefore unable to disclose the impact that adopting FASB ASC XXX will have on its financial position and the results of operations when such statement is adopted.
Justification exists for a change in accounting principles.	We believe that [describe the newly adopted accounting principle] is preferable to [describe the former accounting principle] because [describe management's justification for the change in accounting principles].
Financial circumstances are strained, with disclosure of management's intentions and the entity's ability to continue as a going concern.	Note [X] to the financial statements discloses all of the matters of which we are aware that are relevant to the company's ability to continue as a going concern, including significant conditions and events, and management's plans.
The possibility exists that the value of specific significant long lived assets or certain identifiable intangibles may be impaired.	We have reviewed long lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable and have appropriately recorded the adjustment.
The entity has a variable interest in another entity.	<p>Variable interest entities (VIEs) and potential VIEs and transactions with VIEs and potential VIEs have been properly recorded and disclosed in the financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p>We have considered both implicit and explicit variable interests in (a) determining whether potential VIEs should be considered VIEs, (b) calculating expected losses and residual returns, and (c) determining which party, if any, is the primary beneficiary.</p> <p>We have provided you with lists of all identified variable interests in (a) VIEs, (b) potential VIEs that we considered but judged not to be VIEs, and (c) entities that were afforded the scope exceptions of FASB ASC 810, <i>Consolidation</i>.</p>

(continued)

General

Condition	Illustrative Examples
	<p>We have advised you of all transactions with identified VIEs, potential VIEs, or entities afforded the scope exceptions of FASB ASC 810.</p> <p>We have made available all relevant information about financial interests and contractual arrangements with related parties, de facto agents, and other entities, including but not limited to, their governing documents, equity and debt instruments, contracts, leases, guarantee arrangements, and other financial contracts and arrangements.</p> <p>The information we provided about financial interests and contractual arrangements with related parties, de facto agents, and other entities includes information about all transactions, unwritten understandings, agreement modifications, and written and oral side agreements.</p> <p>Our computations of expected losses and expected residual returns of entities that are VIEs and potential VIEs are based on the best information available and include all reasonably possible outcomes.</p> <p>Regarding entities in which the company has variable interests (implicit and explicit), we have provided all information about events and changes in circumstances that could potentially cause reconsideration about whether the entities are VIEs or whether the company is the primary beneficiary or has a significant variable interest in the entity.</p> <p>We have made and continue to make exhaustive efforts to obtain information about entities in which the company has an implicit or explicit interest, but that were excluded from complete analysis under FASB ASC 810 due to lack of essential information to determine one or more of the following:</p> <ul style="list-style-type: none"><li>• Whether the entity is a VIE</li><li>• Whether the company is the primary beneficiary</li><li>• The accounting required to consolidate the entity</li></ul>
The work of a specialist has been used by the entity.	<p>We agree with the findings of specialists in evaluating the [<i>describe assertion</i>] and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.</p>

**Assets**

<b>Condition</b>	<b>Illustrative Examples</b>
<b>Cash</b> Disclosure is required of compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements.	Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements have been properly disclosed.
<b>Financial Instruments</b> Management intends to and has the ability to hold to maturity debt securities classified as held-to-maturity. Management considers the decline in value of debt or equity securities to be temporary. Management has determined the fair value of significant financial instruments that do not have readily determinable market values.	Debt securities that have been classified as held-to-maturity have been so classified due to the company's intent to hold such securities to maturity and the company's ability to do so. All other debt securities have been classified as available-for-sale or trading. We consider the decline in value of debt or equity securities classified as either available-for-sale or held-to-maturity to be temporary. The methods and significant assumptions used to determine fair values of financial instruments are as follows: [ <i>describe methods and significant assumptions used to determine fair values of financial instruments</i> ]. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
Financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk exist.	The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements: <ol style="list-style-type: none"> <li>1. The extent, nature, and terms of financial instruments with off-balance-sheet risk</li> <li>2. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments</li> <li>3. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments</li> </ol>

(continued)

<i>Assets</i>	
<i>Condition</i>	<i>Illustrative Examples</i>
<i>Receivables</i> Receivables have been recorded in the financial statements.	Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
<i>Inventories</i> Excess or obsolete inventories exist.	Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.
<i>Investments</i> Unusual considerations are involved in determining the application of equity accounting.	<p>[For investments in common stock that are either nonmarketable or of which the entity has a 20 percent or greater ownership interest, select the appropriate representation from the following:]</p> <ul style="list-style-type: none"><li>• The equity method is used to account for the company's investment in the common stock of [investee] because the company has the ability to exercise significant influence over the investee's operating and financial policies.</li><li>• The cost method is used to account for the company's investment in the common stock of [investee] because the company does not have the ability to exercise significant influence over the investee's operating and financial policies.</li></ul>
<i>Deferred Charges</i> Material expenditures have been deferred.	We believe that all material expenditures that have been deferred to future periods will be recoverable.
<i>Deferred Tax Assets</i> A deferred tax asset exists at the balance sheet date.	<p>The valuation allowance has been determined pursuant to the provisions of FASB ASC 740, <i>Income Taxes</i>, including the company's estimation of future taxable income, if necessary, and is adequate to reduce the total deferred tax asset to an amount that will more likely than not be realized. [Complete with appropriate wording detailing how the entity determined the valuation allowance against the deferred tax asset.]</p> <p>or</p> <p>A valuation allowance against deferred tax assets at the balance-sheet date is not considered necessary because it is more likely than not that the deferred tax asset will be fully realized.</p>



***Liabilities***

<b><i>Condition</i></b>	<b><i>Illustrative Examples</i></b>
<p><b><i>Debt</i></b></p> <p>Short term debt could be refinanced on a long term basis and management intends to do so.</p>	<p>The company has excluded short-term obligations totaling \$[<i>amount</i>] from current liabilities because it intends to refinance the obligations on a long-term basis. [<i>Complete with appropriate wording detailing how amounts will be refinanced as follows:</i>]</p> <ul style="list-style-type: none"> <li>• The company has issued a long term obligation [<i>debt security</i>] after the date of the balance sheet but prior to the issuance of the financial statements for the purpose of refinancing the short-term obligations on a long term basis.</li> <li>• The company has the ability to consummate the refinancing, by using the financing agreement referred to in note [X] to the financial statements.</li> </ul>
<p>Tax-exempt bonds have been issued.</p> <p><b><i>Taxes</i></b></p> <p>Management intends to reinvest undistributed earnings of a foreign subsidiary.</p>	<p>Tax-exempt bonds issued have retained their tax-exempt status.</p> <p>We intend to reinvest the undistributed earnings of [<i>name of foreign subsidiary</i>].</p>
<p><b><i>Contingencies</i></b></p> <p>Estimates and disclosures have been made of environmental remediation liabilities and related loss contingencies.</p>	<p>Provision has been made for any material loss that is probable from environmental remediation liabilities associated with [<i>name of site</i>]. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the company's financial statements.</p>
<p>Agreements may exist to repurchase assets previously sold.</p> <p><b><i>Pension and Postretirement Benefits</i></b></p> <p>An actuary has been used to measure pension liabilities and costs.</p>	<p>Agreements to repurchase assets previously sold have been properly disclosed.</p> <p>We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.</p>

(continued)

*Liabilities*

<i>Condition</i>	<i>Illustrative Examples</i>
Involvement with a multiemployer plan exists.	We are unable to determine the possibility of a withdrawal liability in a multiemployer benefit plan. or We have determined that there is the possibility of a withdrawal liability in a multiemployer plan in the amount of \$[XX].
Postretirement benefits have been eliminated.	We do not intend to compensate for the elimination of postretirement benefits by granting an increase in pension benefits. or We plan to compensate for the elimination of postretirement benefits by granting an increase in pension benefits in the amount of \$[XX].
Employee layoffs that would otherwise lead to a curtailment of a benefit plan are intended to be temporary.	Current employee layoffs are intended to be temporary.
Management intends to either continue to make or not make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service cost, or has expressed a substantive commitment to increase benefit obligations.	We plan to continue to make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service cost. or We do not plan to make frequent amendments to its pension or other postretirement benefit plans.

*Equity*

<i>Condition</i>	<i>Illustrative Example</i>
Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements exist.	Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements have been properly disclosed.

*Income Statement*

<i>Condition</i>	<i>Illustrative Examples</i>
There may be a loss from sales commitments.	Provisions have been made for losses to be sustained in the fulfillment of or from inability to fulfill any sales commitments.
There may be losses from purchase commitments.	Provisions have been made for losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.
Nature of the product or industry indicates the possibility of undisclosed sales terms.	We have fully disclosed to you all sales terms, including all rights of return or price adjustments and all warranty provisions.

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## Review Exhibit C—Illustrative Updating Management Representation Letter

The following letter is presented for illustrative purposes only. It may be used in the circumstances described in paragraph .23. Management need not repeat all of the representations made in the previous representation letter.

If matters exist that should be disclosed to the accountant, they may be indicated by listing them following the representation. For example, if an event subsequent to the date of the accountant's review report is disclosed in the financial statements, the final paragraph could be modified as follows: "To the best of our knowledge and belief, except as discussed in note X to the financial statements, no events have occurred..."

[Date]<sup>1</sup>

To [Accountant]

In connection with your review(s) of the [identification of financial statements] of [name of entity] as of [dates] and for the [periods of review] for the purpose of obtaining limited assurance that that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)], you were previously provided with a representation letter under date of [date of previous representation letter]. No information has come to our attention that would cause us to believe that any of those previous representations should be modified.

To the best of our knowledge and belief, no events have occurred subsequent to [date of latest balance sheet reported on by the accountant or date of previous representation letter] and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

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[Name of Owner or Chief Executive  
Officer and Title]

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[Name of Chief Financial Officer  
and Title, when applicable]

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<sup>1</sup> The accountant has two methods available for dating the report when a subsequent event requiring disclosure occurs after the completion of the review but before issuance of the report on the related financial statements. The accountant may use dual dating (for example, "February 16, 20XX, except for note Y, as to which the date is March 1, 20XX,") or may date the report as of the later date.

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## Review Exhibit D—Illustrative Review Reports

*Standard accountant's review report on financial statements prepared in accordance with accounting principles generally accepted in the United States of America*

### Independent Accountant's Review Report

[Appropriate Salutation]

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provide a reasonable basis for our report.

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

[Signature of accounting firm or accountant, as appropriate]

[Date]

*Standard accountant's review report on financial statements prepared in accordance with the income tax basis of accounting*

### Independent Accountant's Review Report

[Appropriate Salutation]

I (We) have reviewed the accompanying statement of assets, liabilities, and equity—income tax basis of XYZ Company as of December 31, 20XX, and the related statement of revenue and expenses—income tax basis for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis for accounting and for designing, implementing, and maintaining

internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provides a reasonable basis for our report.

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

*[Signature of accounting firm or accountant, as appropriate]*

*[Date]*

*Accountant's review report disclosing a departure from accounting principles generally accepted in the United States of America*

### **Independent Accountant's Review Report**

*[Appropriate Salutation]*

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provide a reasonable basis for our report.

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

As disclosed in note X to the financial statements, accounting principles generally accepted in the United States of America require that inventory cost consist of material, labor, and overhead. Management has informed (me) us that the inventory of finished goods and work in process is stated in the accompanying financial statements at material and labor cost only, and that the effects of this departure from accounting principles generally

accepted in the United States of America on financial position, results of operations, and cash flows have not been determined.

*or*

As disclosed in note X to the financial statements, the company has adopted [*description of newly adopted method*], whereas it previously used [*description of previous method*]. Although the [*description of newly adopted method*] is in conformity with accounting principles as generally accepted in the United States of America, the company does not appear to have reasonable justification for making a change as required by Financial Accounting Standards Board *Accounting Standards Codification* 250, *Accounting Changes and Error Corrections*.

[*Signature of accounting firm or accountant, as appropriate*]

[*Date*]

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**AR Section 100*****Compilation and Review of  
Financial Statements*<sup>\*</sup>**

**Issue date, unless  
otherwise indicated:  
December, 1978**

**Source: SSARS No. 1; SSARS No. 2; SSARS No. 3;  
SSARS No. 5; SSARS No. 7; SSARS No. 8; SSARS No. 9;  
SSARS No. 10; SSARS No. 12; SSARS No. 15; SSARS No. 17; SSARS No. 18**

**.01** This section sets forth the performance and communication requirements when an accountant submits unaudited financial statements of a non-issuer to his or her client or third parties. The accountant should not submit unaudited financial statements of a nonissuer to his or her client or a third party unless, as a minimum, he or she complies with the provisions of this section applicable to a compilation engagement.

- a. Compilation of financial statements.*<sup>1</sup> If the accountant performs a compilation, a communication to management is required. The type of communication depends on the following.
1. If the accountant is engaged to report on compiled financial statements or submits financial statements to a client that are or reasonably might be expected to be used by a third party, see paragraphs .13–.23 for reporting requirements.
  2. If the accountant submits financial statements to a client that are not reasonably expected to be used by a third party, see paragraphs .24–.27 for required communications to management.

In deciding whether the financial statements are or reasonably might be expected to be used by a third party, the accountant may rely on management's representation without further inquiry, unless information comes to his or her attention that contradicts management's representation.

In each of the previous circumstances, the performance requirements in paragraphs .05 and .09–.12 apply.

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<sup>\*</sup> This section has been revised to reflect the amendments and conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 8, effective for financial statements submitted after December 31, 2000. The amendments provide communication and performance requirements for unaudited financial statements submitted to a client that are not expected to be used by a third party. Specifically, the amendments are to the replacement of paragraphs .01–.22 with new paragraphs .01–.27 (subsequent paragraphs and footnotes have been renumbered accordingly), the addition of a new Appendix A [paragraph .97] and D [paragraph .100], and the deletion of former Appendix E [paragraph .101]. In addition, conforming changes to terminology and cross references have been made throughout this section.

<sup>1</sup> See Appendix A [paragraph .97], "Compilation of Financial Statements," for a flowchart regarding the requirements of Statements on Standards for Accounting and Review Services (SSARSs) for a compilation engagement. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

- b. *Review of financial statements.*<sup>[2]</sup> If the accountant performs a review, see paragraphs .05 and .28–.53 for performance and reporting requirements.

[As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17.]

### Note

Statements on Standards for Accounting and Review Services (SSARS) No. 18 amends paragraph .01 so that SSARSs do not apply when the provisions of AU section 722, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1), apply. The following reflects the changes that will be made to paragraph .01, effective for compilations and reviews of financial statements (which includes condensed interim financial statements) for periods beginning after December 15, 2009. Early application is permitted.

**.01** This section establishes standards and provides guidance on compilations and reviews of financial statements. The accountant should not submit unaudited financial statements of a nonissuer to his or her client or a third party unless, as a minimum, he or she complies with the provisions of this section applicable to a compilation engagement.

- a. *Compilation of financial statements.*<sup>1</sup> If the accountant performs a compilation, a communication to management is required. The type of communication depends on the following.

- i. If the accountant is engaged to report on compiled financial statements or submits financial statements to a client that are or reasonably might be expected to be used by a third party, see paragraphs .13–.23 and .54–.76 for reporting requirements.
- ii. If the accountant submits financial statements to a client that are not reasonably expected to be used by a third party, see paragraphs .24–.27 for required communications to management.

In deciding whether the financial statements are or reasonably might be expected to be used by a third party, the accountant may rely on management's representation without further inquiry, unless information comes to his or her attention that contradicts management's representation.

In each of the previous circumstances, the performance requirements in paragraphs .05 and .08–.11 apply.

- b. *Review of financial statements.*<sup>[2]</sup> If the accountant performs a review, see paragraphs .05 and .28–.76 for performance and reporting requirements. Statements on Standards for Accounting and Review Services are not applicable to reviews of interim financial information if

- i. the entity's latest annual financial statements have been audited by the accountant or a predecessor;
- ii. the accountant has been engaged to audit the entity's current year financial statements, or the accountant audited the entity's latest annual financial statements and expects to be engaged to audit the current year financial statements; and

<sup>[2]</sup> [Footnote deleted by the issuance of SSARS No. 15, July 2007.]

- iii. the client prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the annual financial statements.

Accountants engaged to perform reviews of interim financial information when the previously mentioned conditions in i–iii are met should perform such reviews in accordance with AU section 722, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1).

[As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17. As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2009, by SSARS No. 18.]

[<sup>1</sup> See appendix A [paragraph .97], "Compilation of Financial Statements," for a flowchart regarding the requirements of Statements on Standards for Accounting and Review Services (SSARSs) for a compilation engagement. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

[<sup>2</sup> [Footnote deleted by the issuance of SSARS No. 15, July 2007.]

**.02** If the accountant performs more than one service (for example, a compilation and an audit), the accountant should issue the report that is appropriate for the highest level of service rendered.<sup>3</sup>

**.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 nonissuer unless (a) the accountant has compiled or reviewed the financial statements in compliance with the provisions of this section 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. [As amended, effective November 2002, by SSARS No. 9. As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17.]

<sup>3</sup> AR section 300, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*, permits an accountant who has reviewed the financial statements of a nonissuer to issue a compilation report on financial statements for the same period that are included in a prescribed form that calls for departure from generally accepted accounting principles (GAAP). [Footnote amended by the issuance of SSARS No. 17, December 2008.]

## Definitions

**.04** Certain terms are defined for purposes of this section as follows.

*Submission of financial statements.* Presenting to a client or third parties financial statements that the accountant has prepared either manually or through the use of computer software.

*Those charged with governance.* The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. In some cases, those charged with governance are responsible for approving the entity's financial statements (in other cases, management has this responsibility). In some entities, governance is a collective responsibility that may be carried out by a board of directors, a committee of the board of directors, a committee of management, partners, equivalent persons, or some combination thereof. Those charged with governance are specifically excluded from management, unless they perform management functions as defined in the following.

*Management.* The person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.

*Third party.* All persons, including those charged with governance, except for those members of management as defined previously.<sup>4</sup>

*Generally accepted accounting principles (GAAP).* See Appendix J, [paragraph .106], "Sources of Generally Accepted Accounting Principles," for the hierarchy of GAAP.

*Other comprehensive basis of accounting (OCBOA).* A definite set of criteria, other than GAAP, having substantial support underlying the preparation of financial statements prepared pursuant to that basis. Examples of an OCBOA are:

- (a) A basis of accounting that the reporting entity uses to comply with the requirements or financial reporting provisions of a governmental regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting insurance companies use pursuant to the rules of a state insurance commission).
- (b) A basis of accounting that the reporting entity uses or expects to use to file its income tax return for the period covered by the financial statements.
- (c) The cash basis of accounting and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets). Ordinarily a modification would have substantial support if the method is equivalent to the accrual basis of accounting for that item and if the method is not illogical. If modifications to the cash basis of accounting do not have substantial support, the accountant should appropriately modify his or her report in accordance with the guidance in paragraphs .56–.58. If the modifications are so extensive that the modified "cash basis" statements are, in the accountant's judgment, equivalent to financial statements on the accrual basis, the statements

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<sup>4</sup> The accountant may wish to specify those members of management. See Appendix D [paragraph .100], "Compilation of Financial Statements Not Intended for Third-Party Use—Illustrative Engagement Letter." [As amended, effective November 2002, by SSARS No. 9.]

should be considered GAAP basis. The accountant may use the standard form of report modified as appropriate because of the departures from generally accepted accounting principles.

*Financial statement.* A presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with generally accepted accounting principles (GAAP)<sup>[5]</sup> or an OCBOA.<sup>[6]</sup> Reference in the SSARSs to GAAP include, where applicable, an OCBOA. Financial forecasts, projections and similar presentations,<sup>7</sup> and financial presentations included in tax returns are not financial statements for purposes of this section. The following financial presentations are examples of financial statements and are not meant to be all-inclusive.<sup>[8]</sup>

Appropriate GAAP financial statement titles:

- Balance sheet
- Statement of income
- Statement of comprehensive income
- Statement of retained earnings
- Statement of cash flows
- Statement of changes in owners' equity
- Statement of assets and liabilities (with or without owners' equity accounts)
- Statement of revenue and expenses
- Statement of financial position (condition)
- Statement of activities
- Summary of operations
- Statement of operations by product lines

Appropriate OCBOA financial statement titles:

- Balance sheet—cash basis
- Statement of assets and liabilities arising from cash transactions
- Statement of assets, liabilities, and stockholders' equity—income tax basis
- Statement of revenue collected and expenses paid
- Statement of revenue and expenses—income tax basis
- Statement of income—statutory basis
- Statement of operations—income tax basis

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

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<sup>[5]</sup> [Footnote deleted by the issuance of SSARS No. 15, July 2007.]

<sup>[6]</sup> [Footnote deleted by the issuance of SSARS No. 17, February 2008.]

<sup>7</sup> Statement on Standards for Attestation Engagements No. 10, Chapter 3, *Financial Forecasts and Projections* [AT section 301], as well as the AICPA *Guide for Prospective Financial Information*, provide guidance on preparing and reporting on financial forecasts, projections, and similar presentations. [Footnote revised, January 2001, to reflect conforming changes necessary due to the issuance of Statement on Standards for Attestation Engagements No. 10.]

<sup>[8]</sup> [Footnote deleted by the issuance of SSARS No. 15, July 2007.]

**Issuer.** An issuer is defined in section 3 of the Securities Exchange Act of 1934 [15 U.S.C. 78c], the securities of which are registered under section 12 of that Act (15 U.S.C. 78l), or that is required to file reports under section 15(d) (15 U.S.C. 78o(d)), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933 (15 U.S.C. 77a et seq.), and that it has not withdrawn.

**Nonissuer.** All entities except for those defined as issuers.

**Compilation of financial statements.** A service, the objective of which is to present in the form of financial statements, information that is the representation of management (owners) without undertaking to express any assurance on the financial statements.<sup>[9]</sup>

**Review of financial statements.** A service, the objective of which is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with GAAP.

[As amended, effective November 2002, by SSARS No. 9. As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17.]

## Understanding With the Entity

**.05** The accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed. However, if the engagement is to compile financial statements not expected to be used by a third party, a written communication is required. (See paragraphs .24 and .25.) The understanding should include a description of the nature and limitations of the services to be performed and a description of the report, if a report is to be issued. The understanding should also provide:

- a. That the engagement cannot be relied upon to disclose errors, fraud,<sup>10</sup> or illegal acts<sup>11</sup> and
- b. That the accountant will inform the appropriate level of management<sup>[12]</sup> of any material errors and of any evidence or information that comes to the accountant's attention during the performance of compilation or review procedures<sup>13</sup> that fraud or an illegal act may have occurred.<sup>14</sup> The accountant need not report any matters regarding

<sup>[9]</sup> [Footnote deleted by the issuance of SSARS No. 17, February 2008.]

<sup>10</sup> For purposes of this section, *fraud* is an intentional act that results in a misstatement in compiled or reviewed financial statements. [Footnote added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12.]

<sup>11</sup> For purposes of this section, *illegal acts* are violations of laws or government regulations, excluding fraud. [Footnote added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12.]

<sup>[12]</sup> [Footnote renumbered and deleted by the issuance of SSARS No. 12, July 2005.]

<sup>13</sup> Compilation performance requirements are contained in paragraphs .08–.12. Review performance requirements are contained in paragraphs .29–.45. [Footnote added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12.]

<sup>14</sup> Whether an act is, in fact, fraudulent or illegal is a determination that is normally beyond the accountant's professional competence. An accountant, in reporting on financial statements, presents himself or herself as one who is proficient in accounting and compilation or review services. The accountant's training, experience, and understanding of the client and its industry may provide a basis for recognition that some client acts coming to his or her attention may be fraudulent or illegal.

(continued)

illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.

Examples of engagement letters are presented in Appendixes C [paragraph .99], D [paragraph .100], and E [paragraph .101]. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12.]

## Compilation of Financial Statements

### Objective of a Compilation Engagement

**.06** The objective of a compilation engagement is to present in the form of financial statements, information that is the representation of management (owners) without undertaking to express any assurance on the financial statements. [Paragraph and preceding section header added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.07** Paragraphs .08–.11 are applicable to a compilation of financial statements, whenever the accountant—

- Is engaged to report on compiled financial statements.
- Submits financial statements to a client that are or reasonably might be expected to be used by a third party.
- Submits financial statements to a client that are not expected to be used by a third party.

[Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

### Compilation Performance Requirements

**.08** The accountant should possess a level of knowledge of the accounting principles and practices of the industry in which the entity operates that will enable him or her to compile financial statements that are appropriate in form for an entity operating in that industry.<sup>15</sup> This standard does not prevent an accountant from accepting a compilation engagement for an entity in an industry with which the accountant has no previous experience. It does, however, place upon the accountant a responsibility to obtain the required level of knowledge. The accountant may do so, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, or individuals knowledgeable about the industry. [Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.09** To compile financial statements, the accountant should possess a general understanding of the nature of the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements. The accountant ordinarily

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*(footnote continued)*

However, the determination as to whether a particular act is fraudulent or illegal would generally be based on the advice of an informed expert qualified to practice law or may have to await final determination by a court of law. [Footnote added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12.]

<sup>15</sup> For purposes of this section, the term *industry* includes governmental and not-for-profit activities. [Footnote renumbered by the issuance of SSARS No. 12, July 2005.]

obtains knowledge of these matters through experience with the entity or inquiry of the entity's personnel. On the basis of that understanding, the accountant should consider whether it will be necessary to perform other accounting services, such as assist in adjusting the books of account or consult on accounting matters, when he or she compiles financial statements. [Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.10** The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity. However, the accountant may have made inquiries or performed other procedures. The results of such inquiries or procedures, knowledge gained from prior engagements, or the financial statements on their face may cause the accountant to become aware that information supplied by the entity is incorrect, incomplete, or otherwise unsatisfactory. If any evidence or information comes to the accountant's attention regarding fraud or an illegal act that may have occurred, the accountant should request that management consider the effect of the matter on the financial statements. Additionally, the accountant should consider the effect of the matter on his or her compilation report. In circumstances where the accountant believes that the financial statements are materially misstated, the accountant should obtain additional or revised information. If the entity refuses to provide additional or revised information, the accountant should withdraw from the engagement. (However, see paragraphs .19–.22 for guidance when management elects to omit substantially all the disclosures required by GAAP and see paragraphs .56–.58 for the accountant's reporting responsibilities when he or she is aware of other departures from GAAP.) [As amended, effective November 2002, by SSARS No. 9. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.11** Before submission, the accountant should read the financial statements and consider whether such financial statements appear to be appropriate in form and free from obvious material errors. In this context, the term *error* refers to mistakes in the compilation of financial statements, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including inadequate disclosure. [Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Limitations of a Compilation Engagement

**.12** A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for expressing any level of assurance on the financial statements being compiled. [Paragraph and preceding section header added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

## Reporting on the Financial Statements

**.13** 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:

- 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.)

Any other procedures that the accountant might have performed before or during the compilation engagement should not be described in the report. [As amended, effective November 2002, by SSARS No. 9. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**[.14]** [Paragraph deleted by the issuance of SSARS No. 9, November 2002. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.15** Each page of the financial statements compiled by the accountant should include a reference, such as "See Accountant's Compilation Report." [Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.16** The following form of standard report is appropriate for a compilation of financial statements prepared in accordance with generally accepted accounting principles:<sup>16</sup>

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20X1, and the related statements of income, retained earnings,<sup>17</sup> and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

[As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

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<sup>16</sup> If the statement of comprehensive income is included, the first paragraph of the report should also refer to this statement. [Footnote added, effective November 2002, by SSARS No. 9. Footnote renumbered by the issuance of SSARS No. 12, July 2005.]

<sup>17</sup> Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 505-10-50 requires the disclosure of a change in capital. This can be accomplished by the 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. [Footnote added, effective November 2002, by SSARS No. 9. Footnote renumbered by the issuance of SSARS No. 12, July 2005. Footnote revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]

**.17** The following form of standard report is appropriate for a compilation of financial statements prepared in accordance with an other comprehensive basis of accounting. For illustrative purposes, the example is of a compilation of full disclosure cash basis financial statements:

I (we) have compiled the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 20X1, and the related statement of revenue collected and expenses paid for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

[Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.18** An accountant may be asked to issue a compilation report on one financial statement, such as a balance sheet, and not on other related financial statements, such as the statements of income, retained earnings, and cash flows. This section does not preclude the accountant from doing so. Also, an accountant may be asked to compile financial statements included in a prescribed form that calls for departure from GAAP. AR section 300, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*, provides additional guidance, including an alternative form of standard report, applicable to such compilation engagements. [Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Reporting on Financial Statements That Omit Substantially All Disclosures

**.19** An entity may request an accountant to compile financial statements that omit substantially all the disclosures required by GAAP, including disclosures that might appear in the body of the financial statements.<sup>18</sup> (As previously noted, reference to GAAP in this section includes, where applicable, OCBOA.) The accountant may compile such financial statements provided the omission of substantially all disclosures is clearly indicated in the report and is not, to his or her knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. When the entity wishes to include disclosures about only a few matters in the form of notes to such financial statements, such disclosures should be labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included." [Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.20** Notwithstanding the preceding, if financial statements compiled in conformity with a comprehensive basis of accounting other than GAAP do not include disclosure of the basis of accounting used, the basis should be disclosed

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<sup>18</sup> See paragraphs .56–.58 for the accountant's responsibilities when he or she is aware of other departures from GAAP. However, see AR section 300 for guidance when such financial statements are included in a prescribed form and the prescribed form or related instructions do not request the disclosures required by GAAP. [Footnote renumbered and amended, effective November 2002, by SSARS No. 9. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005.]

in the accountant's report. [Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.21** When financial statements that the accountant has compiled omit substantially all disclosures but are otherwise in conformity with generally accepted accounting principles,<sup>19</sup> the following form of standard report is appropriate:

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

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

[Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.22** When financial statements that the accountant has compiled omit substantially all disclosures with no reference to basis but are otherwise in conformity with an other comprehensive basis of accounting, the following form of standard report is appropriate. For illustrative purposes, the example is of a compilation of income tax basis financial statements.

I (we) have compiled the accompanying statement of assets, liabilities, and equity – income tax basis of XYZ Company as of December 31, 20XX, and the related statements of revenue and expense – income tax basis for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the accounting basis used by the company for Federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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

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

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<sup>19</sup> If the statement of cash flows is omitted, the first and third paragraphs of the report should be modified accordingly. [Footnote renumbered by the issuance of SSARS No. 9, November 2002. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005.]

[Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Reporting When the Accountant Is Not Independent

**.23** An accountant is not precluded from issuing a report with respect to a compilation of financial statements for an entity with respect to which the accountant is not independent.<sup>20</sup> If the accountant is not independent, he or she should specifically disclose the lack of independence. However, the reason for the lack of independence should not be described. When the accountant is not independent, the following should be included as the last paragraph of the report:

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

[Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Accountant's Communications With the Client When the Compiled Financial Statements Are Not Expected to Be Used by a Third Party

**.24** When an accountant submits unaudited financial statements to his or her client that are not expected to be used by a third party, he or she should either

- issue a compilation report in accordance with the reporting requirements discussed in paragraphs .13–.23 or
- document an understanding with the entity through the use of an engagement letter, preferably signed by management, regarding the services to be performed and the limitations on the use of those financial statements. (Appendix D [paragraph .100] contains "Compilation of Financial Statements Not Intended for Third-Party Use—Illustrative Engagement Letter.")

[Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.25** The documentation of the understanding should include the following descriptions or statements:

- The nature and limitations of the services to be performed.
- A compilation is limited to presenting in the form of financial statements information that is the representation of management.
- The financial statements will not be audited or reviewed.
- No opinion or any other form of assurance on the financial statements will be provided.
- Management has knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements.

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<sup>20</sup> In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA *Code of Professional Conduct*. [Footnote renumbered by the issuance of SSARS No. 9, November 2002. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005.]

- Acknowledgment of management's representation and agreement that the financial statements are not to be used by third parties.
- The engagement cannot be relied upon to disclose errors, fraud, or illegal acts.

The documentation of the understanding should also address the following additional matters if applicable:

- Material departures from GAAP or OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed.
- Substantially all disclosures (and statement of cash flows, if applicable) required by GAAP or OCBOA may be omitted.
- Lack of independence.
- Refer to supplementary information.

Such an understanding reduces the risk that the accountant or the client may misinterpret the needs or expectations of the other party. If the accountant believes an understanding with the client has not been established, he or she should decline to accept or perform the engagement. [Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.26** The accountant should include a reference on each page of the financial statements restricting their use such as "Restricted for Management's Use Only," or "Solely for the information and use by the management of [*name of entity*] and not intended to be and should not be used by any other party." [Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.27** If the accountant becomes aware that the financial statements have been distributed to third parties, the accountant should discuss the situation with the client and request that the client have the statements returned. If the client does not comply with this request within a reasonable period of time, the accountant should notify known third parties that the financial statements are not intended for third-party use, preferably in consultation with his or her attorney. [Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Review of Financial Statements

### Objective of a Review Engagement

**.28** The objective of a review engagement is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with GAAP. [Paragraph and preceding section header added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

### Review Performance Requirements

**.29** In order to obtain a reasonable basis for the expression of limited assurance, the accountant must

- apply analytical procedures to the financial statements, as discussed in paragraphs .36–.37.

- make inquiries of management and, when deemed appropriate, other company personnel, as discussed in paragraph .38.
- obtain representations from management for all financial statements and periods covered by the accountant's review report, as discussed in paragraphs .39–.42.

[As amended, effective November 2002, by SSARS No. 9. As amended, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.30** The analytical and other procedures performed and the specific inquiries made should be tailored to the engagement based on the accountant's knowledge of the entity's business. For example, if the accountant becomes aware of a significant change in the entity's operations, the accountant may consider making additional inquiries, employing additional analytical procedures, or both. [Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.31** During the performance of the review procedures, the accountant may become aware that information coming to his or her attention is incorrect, incomplete, or otherwise unsatisfactory or that fraud or an illegal act may have occurred. The accountant should request that management consider the effect of these matters on the financial statements. Additionally, the accountant should consider the effect of these matters on his or her review report. In circumstances where the accountant believes the financial statements are materially misstated, the accountant should perform additional procedures deemed necessary to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles. (See paragraph .51 for guidance when an accountant is unable to complete a review and paragraphs .56–.58 for the accountant's responsibilities when he or she is aware of departures from generally accepted accounting principles.) [Paragraph renumbered and amended, effective November 2002, by SSARS No. 9. Paragraph subsequently renumbered and amended, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

## Limitations of a Review Engagement

**.32** A review differs significantly from an audit of financial statements in which the auditor provides reasonable assurance that the financial statements, taken as a whole, are free of material misstatement. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, a review does not provide assurance that the accountant will become aware of all significant matters that would be disclosed in an audit. Therefore, a review provides only limited assurance that there are no material modifications that should be made to the

financial statements in order for the statements to be in conformity with GAAP. [Paragraph and preceding section header added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

## Knowledge of Accounting Principles and Practices of the Industry

**.33** The accountant should possess a level of knowledge of the accounting principles and practices of the industry in which the entity operates and an understanding of the entity's business<sup>21</sup> that will provide, through the performance of inquiry and analytical procedures, a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles. (As previously noted, reference to generally accepted accounting principles in this section includes, where applicable, an other comprehensive basis of accounting.) [Paragraph renumbered and amended, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.34** The requirement that the accountant possess a level of knowledge of the accounting principles and practices of the industry in which the entity operates does not prevent an accountant from accepting a review engagement for an entity in an industry with which the accountant has no previous experience. It does, however, place upon the accountant a responsibility to obtain the required level of knowledge. He may do so, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, or individuals knowledgeable about the industry. [Paragraph renumbered by the issuance of SSARS No. 10, May 2004. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.35** The accountant's understanding of the entity's business should include a general understanding of the entity's organization, its operating characteristics, and the nature of its assets, liabilities, revenues, and expenses. This would ordinarily involve a general knowledge of the entity's production, distribution, and compensation methods, types of products and services, operating locations, and material transactions with related parties. An accountant's understanding of an entity's business is ordinarily obtained through experience with the entity or its industry and inquiry of the entity's personnel. [Paragraph renumbered by SSARS No. 10, May 2004. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Analytical Procedures

**.36** In a review engagement, the accountant must apply analytical procedures to the financial statements. The purpose of analytical procedures is to identify and provide a basis for inquiry about the relationships and individual

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<sup>21</sup> For purposes of this section, the term *business* includes not-for-profit entities. [Footnote renumbered by the issuance of SSARS No. 9, November 2002. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005.]

items that appear to be unusual and that may indicate a material misstatement. Analytical procedures include:

- Developing expectations by identifying and using plausible relationships that are reasonably expected to exist based on the accountant's understanding of the entity and the industry in which the entity operates.
- Comparing recorded amounts, or ratios developed from recorded amounts, to expectations developed by the accountant.

See Appendix I [paragraph .105] for examples of analytical procedures an accountant may consider performing when conducting a review of financial statements. [Paragraph added, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.37** Expectations developed by the accountant in performing analytical procedures in connection with a review of financial statements ordinarily are less encompassing than those developed in an audit. Also, in a review the accountant ordinarily is not required to corroborate management's responses with other evidence. However, the accountant should consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the entity's business and the industry in which it operates. [Paragraph added, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Inquiries and Other Review Procedures

**.38** The following are inquiries the accountant should consider making and other review procedures the accountant should consider performing when conducting a review of financial statements:

- a. Inquiries to members of management who have responsibility for financial and accounting matters concerning (see Appendix B [paragraph .98]):
  1. Whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied.
  2. The entity's accounting principles and practices and the methods followed in applying them and procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements.
  3. Unusual or complex situations that may have an effect on the financial statements.
  4. Significant transactions occurring or recognized near the end of the reporting period.
  5. The status of uncorrected misstatements identified during the previous engagement.
  6. Questions that have arisen in the course of applying the review procedures.
  7. Events subsequent to the date of the financial statements that could have a material effect on the financial statements.



8. Their knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, for example, communications received from employees, former employees, or others.
9. Significant journal entries and other adjustments.
10. Communications from regulatory agencies.
- b. Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements.
- c. Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles.
- d. Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees.<sup>22</sup>

[Paragraph renumbered and amended, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Management Representations

**.39** Written representations are required from management for all financial statements and periods covered by the accountant's review 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:<sup>23</sup>

- 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 acknowledgement of its responsibility to prevent and detect fraud

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<sup>22</sup> The financial statements of the reporting entity ordinarily include an accounting for all significant components, such as unconsolidated subsidiaries and investees. If other accountants are engaged to audit or review the financial statements of such components, the accountant will require reports from the other accountants as a basis, in part, for the accountant's review report with respect to the review of the financial statements of the reporting entity. The accountant may decide to make reference to the work of other accountants in the accountant's review report on the financial statements. If such reference is made, the report should indicate the magnitude of the portion of the financial statements audited or reviewed by the other accountants. [Footnote renumbered by the issuance of SSARS No. 9, November 2002. As amended, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005.]

<sup>23</sup> Specific representations also are applicable to financial statements presented in conformity with a comprehensive basis of accounting other than generally accepted accounting principles. The specific representations to be obtained should be based on the nature and basis of presentation of the financial statements being reviewed. [Footnote added, effective for review reports dated January 1, 2003, or after, by SSARS No. 9. Footnote renumbered by the issuance of SSARS No. 12, July 2005.]

- d. Knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, including any communications received from employees, former employees, or others
- e. Management's full and truthful response to all inquiries
- f. Completeness of information
- g. 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 [paragraph .102]. [Paragraph added, effective for review reports dated January 1, 2003, or after, by SSARS No. 9. Paragraph renumbered and amended, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Preceding section header amended and paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.40** There are circumstances in which an accountant should consider obtaining an updating representation letter from management (for example, the accountant obtains a management representation letter after completion of inquiry and analytical review procedures but does not issue his or her review report for a significant period of time thereafter, or a material subsequent event occurs after the completion of inquiry and analytical review procedures, including obtaining the original management representation letter, but before the issuance of the report on the reviewed financial statements). In addition, if a predecessor accountant is requested by a former client to reissue his or her report on the financial statements of a prior period, and those financial statements are to be presented on a comparative basis with reviewed financial statements of a subsequent period, the predecessor accountant should obtain an updating representation letter from the management of the former client.<sup>24</sup> The updating management representation letter should state (a) whether any information has come to management's attention that would cause management to believe that any of the previous representations should be modified and (b) whether any events have occurred subsequent to the balance-sheet date of the latest financial statements reported on by the accountant that would require adjustment to or disclosure in those financial statements.<sup>25</sup> [Paragraph added, effective for reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.41** In a review engagement, the accountant must obtain representations from management for all financial statements and periods covered by the accountant's review report. 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, management's representations set forth in the management representation letter should be made as of the date of the accountant's review report. The accountant need not be in physical receipt of

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<sup>24</sup> See AR section 200, *Reporting on Comparative Financial Statements* [AR section 200.20–.24]. [Footnote added, effective for reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12.]

<sup>25</sup> An illustrative updating management representation letter is contained in Appendix G, "Review of Financial Statements—Illustrative Updating Management Representation Letter" [paragraph .103]. [Footnote added, effective for reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12.]

the management representation letter as of the date of the accountant's review report provided that management has acknowledged that they will sign the representation letter without modification, and it is received prior to the date the report is released. The management representation letter should be addressed to the accountant. The letter should be signed by those 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. If the 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. [Paragraph renumbered and amended, effective for review reports dated January 1, 2003, or after, by SSARS No. 9. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.42** Knowledge acquired in the performance of audits of the entity's financial statements, compilation of the financial statements, or other accounting services may result in modification of the review procedures described in paragraphs .36–.38. However, such modification would not reduce the degree of responsibility the accountant assumes with respect to the reviewed financial statements. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered and amended, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Documentation in a Review Engagement

**.43** The accountant should prepare documentation in connection with a review of financial statements, the form and content of which should be designed to meet the circumstances of the particular engagement. Documentation is the principal record of the review procedures performed and the conclusions reached by the accountant in performing the review. However, an accountant would not be precluded from supporting his or her review report by other means in addition to the review documentation. Such other means might include written documentation contained in other engagement (for example compilation) files or quality control files (for example consultation files) and in limited situations, oral explanations. Oral explanations should be limited to those situations where the accountant finds it necessary to supplement or clarify information contained in the documentation. Oral explanations should not be the principal support for the work performed or the conclusions reached. [Paragraph added, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.44** Because of the different circumstances in individual engagements, it is not possible to specify the form or content of the documentation the accountant should prepare. However, the documentation should include any findings

or issues that in the accountant's judgment are significant, for example, the results of review procedures that indicate the financial statements could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered and amended, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.45** The documentation of the inquiry and analytical procedures should include the following:

- a. The matters covered in the accountant's inquiry procedures.
- b. The analytical procedures performed.
- c. The expectations as discussed in paragraph .36, where significant expectations are not otherwise readily determinable from the documentation of the work performed, and factors considered in the development of those expectations.
- d. Results of the comparison of the expectations to the recorded amounts or ratios developed from recorded amounts.
- e. Any additional procedures performed in response to significant unexpected differences arising from the analytical procedure and the results of such additional procedures.
- f. Unusual matters that the accountant considered during the performance of the review procedures, including their disposition.
- g. Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention.
- h. The representation letter.

[Paragraph added, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Reporting on the Financial Statements

**.46** Financial statements reviewed by an accountant should be accompanied by a report. The basic elements of the report are as follows:

- a. A statement that a review 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 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 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 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.)

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 report. [Paragraph renumbered and amended, effective November 2002, by SSARS No. 9. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**[.47]** [Paragraph renumbered and deleted by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.48** Each page of the financial statements reviewed by the accountant should include a reference such as "See Accountant's Review Report." [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.49** The following form of standard report is appropriate for a review of financial statements prepared in accordance with generally accepted accounting principles.<sup>26</sup>

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20X1, and the related statements of income, retained earnings,<sup>27</sup> and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an

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<sup>26</sup> See paragraphs .56–.58 for the accountant's responsibilities with respect to departures from generally accepted accounting principles.

If the statement of comprehensive income is included, the first paragraph of the report should also refer to this statement. [Footnote renumbered and amended, effective November 2002, by the issuance of SSARS No. 9. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005.]

<sup>27</sup> FASB ASC 505-10-50 requires the disclosure of a change in capital. This can be accomplished by the 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. [Footnote added, effective November 2002, by the issuance of SSARS No. 9. Footnote renumbered by the issuance of SSARS No. 12, July 2005. Footnote revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]

audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

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

[Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by the issuance of SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.50** The following form of standard report is appropriate for a review of financial statements prepared in accordance with an other comprehensive basis of accounting. For illustrative purposes, the example is of a review of financial statements prepared in accordance with the income tax basis of accounting:

I (we) have reviewed the accompanying statement of assets, liabilities, and equity – income tax basis of XYZ Company as of December 31, 20X1, and the related statement of revenue and expenses – income tax basis for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

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

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

[Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.51** When an accountant is unable to perform the inquiry and analytical procedures he or she considers necessary to achieve the limited assurance contemplated by a review, or the client does not provide the accountant with a representation letter, the review will be incomplete. A review that is incomplete is not an adequate basis for issuing a review report. In such a situation, the accountant should consider the matters discussed in paragraphs .86–.91 in deciding whether it is appropriate to issue a compilation report on the financial statements. [Paragraph renumbered and amended, effective November 2002, by SSARS No. 9. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.52** An accountant may be asked to issue a review report on one financial statement, such as a balance sheet, and not on other related financial statements, such as the statements of income, retained earnings, and cash flows.

He may do so if the scope of his inquiry and analytical procedures has not been restricted. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.53** An accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he is not independent.<sup>28</sup> If the accountant is not independent, he may issue a compilation report provided he complies with the compilation standards. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Emphasis of a Matter

**.54** An accountant may emphasize, in any report on financial statements, a matter disclosed in the financial statements. Such explanatory information should be presented in a separate paragraph of the accountant's report. Emphasis paragraphs are never required; they may be added solely at the accountant's discretion.

Examples of matters the accountant may wish to emphasize are:

- Uncertainties.
- That the entity is a component of a larger business enterprise.
- That the entity has had significant transactions with related parties.
- Unusually important subsequent events.
- Accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

[Paragraph and preceding section head added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.55** Because an emphasis of matter paragraph should not be used in lieu of management disclosures, an accountant should not include an emphasis paragraph in a compilation report on financial statements that omit substantially all disclosures unless the matter is disclosed in the financial statements.<sup>29</sup> The accountant should refer to paragraph .19 if he or she believes that a disclosure is necessary to keep the financial statements from being misleading. [Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

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<sup>28</sup> See footnote 20. [Footnote renumbered by the issuance of SSARS No. 9, November 2002. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005.]

<sup>29</sup> For example, the accountant may include an emphasis paragraph on a matter when management has presented selected information, even though substantially all disclosures have been omitted, as long as the matter discussed in the emphasis paragraph is disclosed in the selected information. [Footnote added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15.]

## Departures From Generally Accepted Accounting Principles

**.56** An accountant who is engaged to compile or review financial statements may become aware of a departure from generally accepted accounting principles (which include adequate disclosure) that is material to the financial statements. (As noted previously, reference in this section to generally accepted accounting principles includes, where applicable, an OCBOA.) Paragraphs .19–.22 provide guidance to the accountant when the departure relates to the omission of substantially all disclosures in the financial statements he or she has compiled. AR section 300 provides guidance when the departure is called for by a prescribed form or related instructions. In all other circumstances, if the financial statements are not revised, the accountant should consider whether modification of the standard report is adequate to disclose the departure. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.57** If the accountant concludes that modification of the standard report is appropriate,<sup>30</sup> the departure should be disclosed in a separate paragraph of the report, including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known as the result of the accountant's procedures. The accountant is not required to determine the effects of a departure if management has not done so, provided the accountant states in the report that such determination has not been made. Examples of compilation and review reports that disclose departures from generally accepted accounting principles follow.

### Compilation Report

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

*(Separate paragraph)*

As disclosed in note X to the financial statements, generally accepted accounting principles require that land be stated at cost. Management has informed me (us) that the company has stated its land at appraised value and that, if

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<sup>30</sup> Normally, neither an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, nor an inconsistency in the application of accounting principles would cause the accountant to modify the standard report provided the financial statements appropriately disclose such matters. [Footnote renumbered by the issuance of SSARS No. 9, November 2002. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005. Footnote renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15.]



generally accepted accounting principles had been followed, the land account and stockholders' equity would have been decreased by \$500,000.

*or*

A statement of cash flows for the year ended December 31, 20XX, has not been presented. Generally accepted accounting principles require that such a statement be presented when financial statements purport to present financial position and results of operations.<sup>31</sup>

### Review Report

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

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

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

*(Separate paragraph)*

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

*or*

As disclosed in note X to the financial statements, the company has adopted (description of newly adopted method), whereas it previously used (description of previous method). Although the (description of newly adopted method) is in conformity with generally accepted accounting principles, the company does not appear to have reasonable justification for making a change as required by Financial Accounting Standards Board *Accounting Standards Codification* 250, *Accounting Changes and Error Corrections*.

[Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Revised, December 2006, to reflect conforming changes necessary due to the issuance of FASB Statement No. 154. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by the issuance of SSARS No. 15. Paragraph

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<sup>31</sup> If a statement of cash flows is not presented, the first paragraph of the compilation or review report should be modified accordingly. [Footnote renumbered by the issuance of SSARS No. 9, November 2002. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005. Footnote renumbered by the issuance of SSARS No. 15, July 2007.]

renumbered by the issuance of SSARS No. 17, February 2008. Paragraph revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]

**.58** If the accountant believes that modification of the standard report is not adequate to indicate the deficiencies in the financial statements taken as a whole, the accountant should withdraw from the compilation or review engagement and provide no further services with respect to those financial statements. The accountant may wish to consult with his legal counsel in those circumstances. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by the issuance of SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Restricting the Use of an Accountant's Compilation or Review Report

### General-Use and Restricted-Use Reports

**.59** 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.<sup>32</sup> [Paragraph added, effective July 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.60** 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. [Paragraph added, effective July 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.61** 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 agreements<sup>33</sup> 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.<sup>34</sup> [Paragraph added, effective July 2005,

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<sup>32</sup> Nothing in this section precludes an accountant from restricting the use of any report. [Footnote added, effective July 2005, by SSARS No. 12. Footnote renumbered by the issuance of SSARS No. 15, July 2007.]

<sup>33</sup> A contractual agreement as discussed in this section is an agreement between the client and one or more third parties other than the accountant. [Footnote added, effective July 2005, by SSARS No. 12. Footnote renumbered by the issuance of SSARS No. 15, July 2007.]

<sup>34</sup> When the contractual agreement or regulatory provision specifies the use of a prescribed form for which the accountant has been engaged to compile the financial statements, the accountant should reference AR section 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

*(continued)*

by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

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

**.62** 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. [Paragraph added, effective July 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

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

**.63** 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. [Paragraph added, effective July 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

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

**.64** Where required by law or regulation, 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. [Paragraph added, effective July 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## **Adding Other Specified Parties**

**.65** 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. [Paragraph

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*(footnote continued)*

accounting other than generally accepted accounting principles. [Footnote added, effective July 2005, by SSARS No. 12. Footnote renumbered by the issuance of SSARS No. 15, July 2007.]

added, effective July 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.66** 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 .62, 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. [Paragraph added, effective July 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Limiting the Distribution of Reports

**.67** Because of the reasons presented in paragraph .60, 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.<sup>35</sup> 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. [Paragraph added, effective July 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Report Language—Restricted Use

**.68** 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

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<sup>35</sup> 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. [Footnote added, effective July 2005, by SSARS No. 12. Footnote renumbered by the issuance of SSARS No. 15, July 2007.]

- b. An identification of the specified parties to whom use is restricted
- 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*]<sup>36</sup> and is not intended to be and should not be used by anyone other than these specified parties.

[Paragraph added, effective July 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## An Entity's Ability to Continue as a Going Concern

**.69** During the performance of compilation or review procedures, evidence or information may come to the accountant's attention indicating that there may be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being compiled or reviewed (hereinafter referred to as a *reasonable period of time*). In those circumstances, the accountant should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure. [Paragraph and preceding header added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.70** After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, the accountant should consider the reasonableness of management's conclusions including the adequacy of the related disclosures, if applicable. [Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.71** If the accountant determines that management's conclusions are unreasonable or the disclosure of the uncertainty regarding the entity's ability to continue as a going concern is not adequate, he or she should follow the guidance in paragraphs .56–.58 with respect to departures from generally accepted accounting principles. [Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.72** The accountant may emphasize an uncertainty about an entity's ability to continue as a going concern provided the uncertainty is disclosed in the financial statements. In such circumstances, the accountant should follow the guidance in paragraphs .54–.55. [Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

## Subsequent Events

**.73** Events or transactions sometimes occur subsequent to the balance sheet date, but prior to management's issuance of financial statements that have a material effect on the financial statements, and therefore require adjustment to or disclosure in the statements. These occurrences hereinafter are

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<sup>36</sup> The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report. [Footnote added, effective July 2005, by SSARS No. 12. Footnote renumbered by the issuance of SSARS No. 15, July 2007.]

referred to as "subsequent events." [Paragraph and preceding header added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.74** Evidence or information that a subsequent event that has a material effect on the compiled or reviewed financial statements has occurred may come to the accountant's attention in the following ways:

- (a) During the performance of compilation or review procedures
- (b) Subsequent to the date of the accountant's compilation or review report but prior to the release of the report<sup>37</sup>

In either case, the accountant should request that management consider the possible effects on the financial statements including the adequacy of any related disclosure, if applicable. [Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.75** If the accountant determines that the subsequent event is not adequately accounted for in the financial statements or disclosed in the notes, he or she should follow the guidance in paragraphs .56–.58, *Departures From Generally Accepted Accounting Principles*. [Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

**.76** Occasionally, a subsequent event has such a material impact on the entity that the accountant may wish to include in his or her compilation or review report an explanatory paragraph directing the reader's attention to the event and its effects. Such an emphasis of matter paragraph may be added, at the accountant's discretion, provided that the matter is disclosed in the financial statements. See paragraphs .54–.55 for additional guidance with respect to emphasis of matter paragraphs. [Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

## Subsequent Discovery of Facts Existing at Date of Report

**.77** Subsequent to the date of the report on the financial statements that the accountant has compiled or reviewed, he or she may become aware that facts may have existed at that date which might have caused him or her to believe that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory had the accountant then been aware of such facts.<sup>38</sup> Because of the variety of conditions that might be encountered, some of the procedures contained in this section are necessarily set out only in general terms; the specific actions to be taken in a particular case may vary with the circumstances. The accountant would be well advised to consult with his or her legal counsel and insurance provider when he or she encounters the circumstances to which this section may apply because of legal implications that may be involved in

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<sup>37</sup> For purposes of this section, with respect to compiled financial statements in which the accountant does not report, the submission of the compiled financial statements is the equivalent of the accountant's compilation or review report date. [Footnote added, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

<sup>38</sup> For purposes of this section, with respect to compiled financial statements in which the accountant does not report, the submission of the compiled financial statements is the equivalent of the accountant's compilation or review report date. [Footnote added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Footnote renumbered by the issuance of SSARS No. 17, February 2008.]

actions contemplated herein. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.78** After the date of the accountant's compilation or review report, the accountant has no obligation to perform other compilation or review procedures with respect to the financial statements, unless new information comes to his or her attention. However, when the accountant becomes aware of information that relates to financial statements previously reported on by him or her, but that was not known to the accountant at the date of the report, and that is of such a nature and from such a source that the accountant would have investigated it had it come to his or her attention during the course of the compilation or review, the accountant should, as soon as practicable, undertake to determine whether the information is reliable and whether the facts existed at the date of the report. In this connection, the accountant should discuss the matter with his or her client at whatever management levels the accountant deems appropriate, including the board of directors, and request cooperation in whatever investigation may be necessary. If the nature and effect of the matter are such that (a) the accountant's report or the financial statements would have been affected if the information had been known to the accountant at the accountant's compilation or review report date and had not been reflected in the financial statements and (b) the accountant believes that there are persons currently using or likely to use the financial statements who would attach importance to the information, the accountant should:

- In a compilation engagement, obtain additional or revised information.
- In a review engagement, perform the additional procedures deemed necessary to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles.

With respect to (b), consideration should be given, among other things, to the time elapsed since the financial statements were issued. [Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.79** When the accountant has concluded, after considering (a) and (b) in paragraph .78 as appropriate, that action should be taken to prevent further use of the accountant's report or the financial statements, the accountant should advise his or her client to make appropriate disclosure of the newly discovered facts and their impact on the financial statements to persons who are known to be currently using or who are likely to use the financial statements. When the client undertakes to make appropriate disclosure, the method used and the disclosure made will depend on the circumstances.

- a. If the effect on the accountant's report or the financial statements of the subsequently discovered information can promptly be determined, disclosure should consist of issuing, as soon as practicable, revised financial statements and, where applicable, the accountant's report. The reasons for the revision usually should be described in a note to the financial statements and, where applicable, referred to in the accountant's report.

Generally, only the most recently-issued compiled or reviewed financial statements would need to be revised, even though the revision resulted from events that had occurred in prior years.<sup>39</sup>

- b. When issuance of financial statements for a subsequent period is imminent, so that disclosure is not delayed, appropriate disclosure of the revision can be made in such statements instead of reissuing the earlier statements pursuant to subparagraph (a).<sup>40</sup>
- c. When the effect on the financial statements of the subsequently discovered information cannot be promptly determined, the issuance of revised financial statements would necessarily be delayed. In this circumstance, when it appears that the information will require a revision of the statements, appropriate disclosure would consist of notification by the client to persons who are known to be using or who are likely to use the financial statements that they should not be used, and that revised financial statements will be issued and, where applicable, the accountant's report will be issued as soon as practicable.

[Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.80** The accountant should take whatever steps he or she deems necessary to satisfy himself or herself that the client has made the disclosures specified in paragraph .79. [Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.81** If the client refuses to make the disclosures specified in paragraph .79, the accountant should notify the appropriate personnel at the highest levels within the entity, such as the manager (owner) or the board of directors, of such refusal and of the fact that, in the absence of disclosure by the client, the accountant will take steps as outlined in the following to prevent further use of the financial statements and, if applicable, the accountant's report. The steps that can appropriately be taken will depend upon the degree of certainty of the accountant's knowledge that there are persons who are currently using or who will use the financial statements and, if applicable, the accountant's report, and who would attach importance to the information, and the accountant's ability as a practical matter to communicate with them. Unless the accountant's attorney recommends a different course of action, the accountant should take the following steps to the extent applicable:

- a. Notification to the client that the accountant's report must no longer be associated with the financial statements.
- b. Notification to the regulatory agencies having jurisdiction over the client that the accountant's report should no longer be used.

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<sup>39</sup> See FASB ASC 250-10-45 and FASB ASC 250-10-50 regarding disclosure of adjustments applicable to prior periods. [Footnote added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Footnote renumbered by the issuance of SSARS No. 17, February 2008. Footnote revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]

<sup>40</sup> See FASB ASC 250-10-45 and FASB ASC 250-10-50 regarding disclosure of adjustments applicable to prior periods. [Footnote added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Footnote renumbered by the issuance of SSARS No. 17, February 2008. Footnote revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]



- c. Notification to each person known to the accountant to be using the financial statements that the financial statements and the accountant's report should no longer be used. In many instances, it will not be practicable for the accountant to give appropriate individual notification to stakeholders whose identities ordinarily are unknown to him or her; notification to a regulatory agency having jurisdiction over the client will usually be the only practicable way for the accountant to provide appropriate disclosure. Such notification should be accompanied by a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.

Although a compilation report does not express any form of assurance on the financial statements, it would seldom be appropriate for an accountant to conclude, simply because his or her responsibilities were limited to a compilation service, that notification of third party users in the absence of notification by the client is not required when the accountant knows that the financial statements should be revised. [Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.82** The following guidelines should govern the content of any disclosure made by the accountant in accordance with paragraph .81 to persons other than his or her client:

- a. The disclosure should include a description of the nature of the subsequently acquired information and its effect on the financial statements.
- b. The information disclosed should be as precise and factual as possible and should not go beyond that which is reasonably necessary to accomplish the purpose mentioned in the preceding subparagraph (a). Comments concerning the conduct or motives of any person should be avoided.

If the client has not cooperated, the accountant's disclosure need not detail the specific information but can merely indicate that information has come to his or her attention which the client has not cooperated in attempting to substantiate and that, if the information is true, the accountant believes that the compilation or review report must no longer be used or associated with the financial statements. No such disclosure should be made unless the accountant believes that the financial statements are likely to be misleading and that the accountant's compilation or review report should not be used. [Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Supplementary Information

**.83** 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, an explanation should be included in the review report, or in a separate report on the other data. The report should state that the review has been made 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, the compilation report should refer to the other data or the accountant can issue a separate report on the other data. If a separate report is issued, the report should state that the other data accompanying the financial statements are presented only for supplementary analysis purposes and that the information has been 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.

[Paragraph renumbered and amended, effective November 2002, by SSARS No. 9. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

## Communicating to Management and Others

**.84** When evidence or information comes to the accountant's attention during the performance of compilation or review procedures that fraud or an illegal act may have occurred,<sup>41</sup> that matter should be brought to the attention of the appropriate level of management. The accountant need not report matters regarding illegal acts that are clearly inconsequential and may reach agreement in advance with the entity on the nature of such items to be communicated. When matters regarding fraud or an illegal act involve senior management, the accountant should report the matter to an individual or group at a higher level within the entity, such as the manager (owner) or the board of directors. The communication may be oral or written. If the communication is oral, the accountant should document it. When matters regarding fraud or an illegal act involve an owner of the business, the accountant should consider resigning

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<sup>41</sup> See Interpretation No. 6, "Withdrawal From Compilation or Review Engagement," of AR section 100 [AR section 9100.20--24] for guidance on the circumstances under which the accountant would ordinarily conclude that it is necessary to withdraw from a compilation or review engagement. [Footnote added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12. Footnote renumbered by the issuance of SSARS No. 15, July 2007. Footnote renumbered by the issuance of SSARS No. 17, February 2008.]

from the engagement.<sup>[42]</sup> Additionally, the accountant should consider consulting with his or her legal counsel and insurance provider whenever any evidence or information comes to his or her attention during the performance of compilation or review procedures that fraud or an illegal act may have occurred, unless such illegal act is clearly inconsequential. [Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.85** The disclosure of any evidence or information that comes to the accountant's attention during the performance of compilation or review procedures that fraud or an illegal act may have occurred to parties other than the client's senior management (or the client's board of directors, if applicable) ordinarily is not part of the accountant's responsibility and ordinarily would be precluded by the accountant's ethical or legal obligations of confidentiality. The accountant should recognize, however, that in the following circumstances a duty to disclose to parties outside of the entity may exist:

- a. To comply with certain legal and regulatory requirements
- b. To a successor accountant when the successor decides to communicate with the predecessor accountant in accordance with AR section 400, *Communications Between Predecessor and Successor Accountants*, regarding acceptance of an engagement to compile or review the financial statements of a nonissuer
- c. In response to a subpoena

Because potential conflicts between the accountant's ethical and legal obligations for confidentiality of client matters may be complex, the accountant may wish to consult with legal counsel before discussing matters covered by paragraph .84 with parties outside the client. [Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17.]

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

**.86** An accountant who has been engaged to audit the financial statements of a nonissuer in accordance with generally accepted auditing standards (or an accountant who has been engaged to review the financial statements of a nonissuer in accordance with SSARSs) may, before the completion of the audit (review), be requested to change the engagement to a review or compilation (compilation) of financial statements. A request to change the engagement may result from a change in circumstances affecting the entity's requirement for an audit (review), a misunderstanding as to the nature of an audit, review, or compilation, or a restriction on the scope of the audit (review), whether imposed by the client or caused by circumstances. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the

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<sup>[42]</sup> [Footnote renumbered and deleted by the issuance of SSARS No. 15, July 2007. Footnote renumbered by the issuance of SSARS No. 17, February 2008.]

issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17.]

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

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

[Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.88** A change in circumstances that affects the entity's requirement for an audit (review), or a misunderstanding concerning the nature of an audit, review or compilation would ordinarily be considered a reasonable basis for requesting a change in the engagement. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.89** In considering the implications of a restriction on the scope of the audit (review), the accountant should evaluate the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory. Nevertheless, when the accountant has been engaged to audit an entity's financial statements and has been prohibited by the client from corresponding with the entity's legal counsel, the accountant ordinarily would be precluded from issuing a review or compilation report on the financial statements. If in an audit or a review engagement a client does not provide the accountant with a signed representation letter, the accountant would be precluded from issuing a review report on the financial statements and would ordinarily be precluded from issuing a compilation report on the financial statements. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.90** In all circumstances, if the auditing (review) procedures are substantially complete or the cost to complete such procedures is relatively insignificant, the accountant should consider the propriety of accepting a change in the engagement. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.91** If the accountant concludes, based upon his or her professional judgment, that there is reasonable justification to change the engagement and if he or she complies with the standards applicable to the changed engagement, the accountant should issue an appropriate review or compilation report. The report should not include reference to (a) the original engagement, (b) any auditing or review procedures that may have been performed, or (c) scope limitations that resulted in the changed engagement. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Comparative Financial Statements

**[.92]<sup>[43]</sup>** [Paragraph deleted by the issuance of SSARS No. 2, November 1979. Paragraph renumbered by the issuance of SSARS No. 8, October 2000. Paragraph subsequently renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

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

**.93** An accountant is responsible for compliance with Statements on Standards for Accounting and Review Services (SSARSS) in a review or compilation engagement. Rule 202 [ET section 202.01] 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. [Paragraph added, effective for review reports dated January 1, 2003, or after, by SSARS No. 9. Paragraph renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.94** An accountant has the responsibility to adopt a system of quality control in conducting an accounting practice.<sup>44</sup> 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.

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<sup>[43]</sup> [Footnote deleted. Footnote renumbered by the issuance of SSARS No. 9, November 2002. Footnote subsequently renumbered by the issuance of SSARS No. 12, July 2005. Footnote renumbered by the issuance of SSARS No. 15, July 2007. Footnote renumbered by the issuance of SSARS No. 17, February 2008.]

<sup>44</sup> The elements of a system of quality control are identified in Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control* [QC section 10]. A system of quality control consists of policies designed to provide the firm with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements and that reports issued by the firm are appropriate in the circumstances, and the procedures necessary to implement and monitor compliance with those policies. [Footnote added, effective November 2002, by SSARS No. 9. Footnote renumbered by the issuance of SSARS No. 12, July 2005. Footnote renumbered by the issuance of SSARS No. 15, July 2007. Footnote renumbered by the issuance of SSARS No. 17, February 2008. Footnote amended due to the issuance of SQCS No. 7, December 2008.]

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. [Paragraph added, effective for review reports dated January 1, 2003, or after, by SSARS No. 9. Paragraph renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

**.95** 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. [Paragraph added, effective for review reports dated January 1, 2003, or after, by SSARS No. 9. Paragraph renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

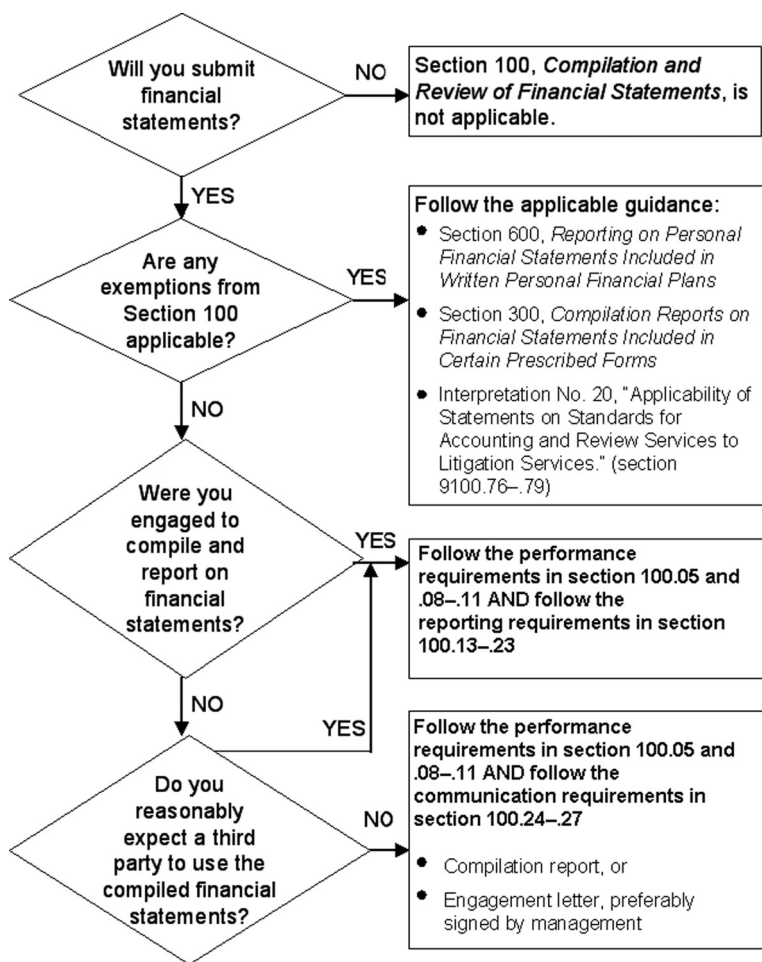
## Effective Date

**.96** This section is effective for compilations and reviews of financial statements for periods ending on or after July 1, 1979. Paragraphs .01–.27 and Appendix A [paragraph .97] and Appendix D [paragraph .100] are effective for financial statements submitted after December 31, 2000. [Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

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## Appendix A

### Compilation of Financial Statements



[Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Appendix B

### Review of Financial Statements—Illustrative Inquiries

The inquiries to be made in a review of financial statements are a matter of the accountant's professional judgment. In determining the appropriate inquiries, an accountant may consider (a) the nature and materiality of the items reflected in the financial statements, (b) the likelihood of a misstatement in the financial statements, (c) knowledge obtained during current and previous engagements, (d) the stated qualifications of the entity's accounting personnel, (e) the extent to which a particular item is affected by management's judgment, and (f) inadequacies in the entity's underlying financial data. The inquiries should generally be made of members of management with financial reporting and accounting responsibilities.

The following list of inquiries is for illustrative purposes only. These inquiries will not necessarily be applicable in every review engagement, nor are these inquiries meant to be all-inclusive. These illustrative inquiries are not intended to serve as a program or checklist to be utilized in performing a review engagement; rather, they address general areas where inquiries might be made in a review engagement. Also, the accountant may feel it necessary to make several inquiries in an effort to answer questions related to the issues addressed in these illustrative inquiries.

#### 1. General

- a. Have there been any changes in the entity's business activities?
- b. Are there any unusual or complex situations that may have an effect on the financial statements (for example, business combinations, restructuring plans, or litigation)?
- c. What procedures are in place related to recording, classifying, and summarizing transactions and accumulating information related to financial statement disclosures?
- d. Have the financial statements been prepared in conformity with generally accepted accounting principles or, if appropriate, a comprehensive basis of accounting other than generally accepted accounting principles? Have there been any changes in accounting principles and methods of applying those principles? Have voluntary changes in accounting principles been reflected in the financial statements through retrospective application of the new principle in comparative financial statements?
- e. Have there been any instances of fraud or illegal acts within the entity?
- f. Have there been any allegations or suspicions that fraud or illegal acts might have occurred or might be occurring within the entity? If so, where and how?
- g. Are any entities, other than the reporting entity, commonly controlled by the owners? If so, has an evaluation been performed to determine whether those other entities should be consolidated into the financial statements of the reporting entity?



- <sup>1</sup> *Cash and cash equivalents* include all cash and highly liquid investments that are both (a) readily convertible to cash and (b) so near to maturity that they present insignificant risk of changes in value because of changes in interest rates, in accordance with the Financial Accounting Standards Board *Accounting Standards Codification* glossary. [Footnote added, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Footnote revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]

- c.* Has interest earned on receivables been properly reflected in the financial statements?
  - d.* Has there been a proper cutoff of sales transactions?
  - e.* Have there been any changes in major contracts with customers that may impact the classification or valuation of receivables?
  - f.* Are there receivables from employees or other related parties? Have receivables from owners been evaluated to determine if they should be reflected in the equity section (rather than the asset section) of the balance sheet?
  - g.* Are any receivables pledged, discounted, or factored? Are recourse provisions properly reflected in the financial statements?
  - h.* Have receivables been properly classified between current and non-current?
  - i.* Have there been significant numbers of sales returns or credit memoranda issued subsequent to the balance sheet date?
  - j.* Is the accounts receivable subsidiary ledger reconciled to the general ledger account balance on a regular basis?
4. Inventory
- a.* Are physical inventory counts performed on a regular basis, including at the end of the reporting period? Are the count procedures adequate to ensure an appropriate count? If not, how have amounts related to inventories been determined for purposes of financial statement presentation? If so, what procedures were used to take the latest physical inventory and what date was that inventory taken?
  - b.* Have general ledger control accounts been adjusted to agree with the physical inventory count? If so, were the adjustments significant?
  - c.* If the physical inventory counts were taken at a date other than the balance sheet date, what procedures were used to determine changes in inventory between the date of the physical inventory counts and the balance sheet date?
  - d.* Were consignments in or out considered in taking physical inventories?
  - e.* What is the basis of valuing inventory for purposes of financial statement presentation?
  - f.* Does inventory cost include material, labor, and overhead where applicable?
  - g.* Has inventory been reviewed for obsolescence or cost in excess of net realizable value? If so, how are these costs reflected in the financial statements?
  - h.* Have proper cutoffs of purchases, goods in transit, and returned goods been made?
  - i.* Are there any inventory encumbrances?
  - j.* Is scrap inventoried and controlled?
  - k.* Have abnormal costs related to inventory been expensed as incurred?
5. Prepaid Expenses
- a.* What is the nature of the amounts included in prepaid expenses?
  - b.* How are these amounts being amortized?

6. Investments

- a.* What is the basis of accounting for investments reported in the financial statements (for example, securities, joint ventures, or closely-held businesses)?
- b.* Are derivative instruments properly measured and disclosed in the financial statements? If those derivatives are utilized in hedge transactions, have the documentation or assessment requirements related to hedge accounting been met?
- c.* Are investments in marketable debt and equity securities properly classified as trading, available-for-sale, and held-to-maturity?
- d.* How were fair values of the reported investments determined? Have unrealized gains and losses been properly reported in the financial statements?
- e.* If the fair values of marketable debt and equity securities are less than cost, have the declines in value been evaluated to determine whether the declines are other-than-temporary?
- f.* For any debt securities classified as held-to-maturity, does management have the positive ability and intent to hold the securities until they mature? If so, have those debt securities been properly measured?
- g.* Have gains and losses related to disposal of investments been properly reflected in the financial statements?
- h.* How was investment income determined? Is investment income properly reflected in the financial statements?
- i.* Has appropriate consideration been given to the classification of investments between current and noncurrent?
- j.* For investments made by the reporting entity, have consolidation, equity, or cost method accounting requirements been considered?
- k.* Are any investments encumbered?

7. Property and Equipment

- a.* Are property and equipment items properly stated at depreciated cost or other proper value?
- b.* When was the last time a physical inventory of property and equipment was taken?
- c.* Are all items reflected in property and equipment held for use? If not, have items that are held for sale been properly reclassified from property and equipment?
- d.* Have gains or losses on disposal of property and equipment been properly reflected in the financial statements?
- e.* What are the criteria for capitalization of property and equipment? Have the criteria been consistently and appropriately applied?
- f.* Are repairs and maintenance costs properly reflected as an expense in the income statement?
- g.* What depreciation methods and rates are utilized in the financial statements? Are these methods and rates appropriate and applied on a consistent basis?
- h.* Are there any unrecorded additions, retirements, abandonments, sales, or trade-ins?

- i.* Does the entity have any material lease agreements? If so, have those agreements been properly evaluated for financial statement presentation purposes?
  - j.* Are there any asset retirement obligations associated with tangible long-lived assets? If so, has the recorded amount of the related asset been increased because of the obligation and is the liability properly reflected in the liability section of the balance sheet?
  - k.* Has the entity constructed any of its property and equipment items? If so, have all components of cost been reflected in measuring these items for purposes of financial statement presentation, including, but not limited to, capitalized interest?
  - l.* Has there been any significant impairment in value of property and equipment items? If so, has any impairment loss been properly reflected in the financial statements?
  - m.* Are any property and equipment items mortgaged or otherwise encumbered? If so, are these mortgages and encumbrances properly reflected in the financial statements?
8. Intangibles and Other Assets
- a.* What is the nature of the amounts included in other assets?
  - b.* Do these assets represent costs that will benefit future periods? What is the amortization policy related to these assets? Is this policy appropriate?
  - c.* Have other assets been properly classified between current and non-current?
  - d.* Are intangible assets with finite lives being appropriately amortized?
  - e.* Are the costs associated with computer software properly reflected as intangible assets (rather than property and equipment) in the financial statements?
  - f.* Are the costs associated with goodwill (and other intangible assets with indefinite lives) properly reflected as intangible assets in the financial statements? Has amortization ceased related to these assets?
  - g.* Has there been any significant impairment in value of these assets? If so, has any impairment loss been properly reflected in the financial statements?
  - h.* Are any of these assets mortgaged or otherwise encumbered?
9. Accounts and Short-Term Notes Payable and Accrued Liabilities
- a.* Have significant payables been reflected in the financial statements?
  - b.* Are loans from financial institutions and other short-term liabilities properly classified in the financial statements?
  - c.* Have there been any changes in major contracts with suppliers that may impact the classification or valuation of payables?
  - d.* Have significant accruals (for example, payroll, interest, provisions for pension and profit-sharing plans, or other postretirement benefit obligations) been properly reflected in the financial statements?
  - e.* Has a liability for employees' compensation for future absences been properly accrued and disclosed in the financial statements?

- f. Are any liabilities collateralized or subordinated? If so, are those liabilities disclosed in the financial statements?
  - g. Are there any payables to employees and related parties?
- 10. Long-Term Liabilities
  - a. Are the terms and other provisions of long-term liability agreements properly disclosed in the financial statements?
  - b. Have liabilities been properly classified between current and non-current?
  - c. Has interest expense been properly accrued and reflected in the financial statements?
  - d. Is the company in compliance with loan covenants and agreements? If not, is the noncompliance properly disclosed in the financial statements?
  - e. Are any long-term liabilities collateralized or subordinated? If so, are these facts disclosed in the financial statements?
  - f. Are there any obligations that, by their terms, are due on demand within one year from the balance sheet date? If so, have these obligations been properly reclassified into the current liability section of the balance sheet?
- 11. Income and Other Taxes
  - a. Do the financial statements reflect an appropriate provision for current and prior-year income taxes payable?
  - b. Have any assessments or reassessments been received? Are there tax authority examinations in process?
  - c. Are there any temporary differences between book and tax amounts? If so, have deferred taxes on these differences been properly reflected in the financial statements?
  - d. Do the financial statements reflect an appropriate provision for taxes other than income taxes (for example, franchise, sales)?
  - e. Have all required tax payments been made on a timely basis?
  - f. Has the entity assessed uncertain tax positions and related disclosures in accordance with FASB ASC 740, *Income Taxes*?
- 12. Other Liabilities, Contingencies, and Commitments
  - a. What is the nature of the amounts included in other liabilities?
  - b. Have other liabilities been properly classified between current and noncurrent?
  - c. Are there any guarantees, whether written or verbal, whereby the entity must stand ready to perform or is contingently liable related to the guarantee? If so, are these guarantees properly reflected in the financial statements?
  - d. Are there any contingent liabilities (for example, discounted notes, drafts, endorsements, warranties, litigation, and unsettled asserted claims)? Are there any potential unasserted claims? Are these contingent liabilities, claims, and assessments properly measured and disclosed in the financial statements?
  - e. Are there any material contractual obligations for construction or purchase of property and equipment or any commitments or options to purchase or sell company securities? If so, are these facts clearly disclosed in the financial statements?

- f.* Is the entity responsible for any environmental remediation liability? If so, is this liability properly measured and disclosed in the financial statements?
  - g.* Does the entity have any agreement to repurchase items that previously were sold? If so, have the repurchase agreements been taken into account in determining the appropriate measurements and disclosures in the financial statements?
  - h.* Does the entity have any sales commitments at prices expected to result in a loss at the consummation of the sale? If so, are these commitments properly reflected in the financial statements?
  - i.* Are there any violations, or possible violations, of laws or regulations the effects of which should be considered for financial statement accrual or disclosure?
13. Equity
- a.* What is the nature of any changes in equity accounts during each reporting period?
  - b.* What classes of stock (other ownership interests) have been authorized?
  - c.* What is the par or stated value of the various classes of stock (other ownership interests)?
  - d.* Do amounts of outstanding shares of stock (other ownership interests) agree with subsidiary records?
  - e.* Have pertinent rights and privileges of ownership interests been properly disclosed in the financial statements?
  - f.* Does the entity have any mandatorily redeemable ownership interests? If so, have these ownership interests been evaluated so that a proper determination has been made related to whether these ownership interests should be measured and reclassified to the liability section of the balance sheet? Are redemption features associated with ownership interests clearly disclosed in the financial statements?
  - g.* Have dividend (distribution) and liquidation preferences related to ownership interests been properly disclosed in the financial statements?
  - h.* Do disclosures related to ownership interests include any applicable call provisions (prices and dates), conversion provisions (prices and rates), unusual voting rights, significant terms of contracts to issue additional ownership interests, or any other unusual features associated with the ownership interests?
  - i.* Are syndication fees properly reflected in the financial statements as a reduction of equity (rather than an asset)?
  - j.* Have any stock options or other stock compensation awards been granted to employees or others? If so, are these options or awards properly measured and disclosed in the financial statements?
  - k.* Has the entity made any acquisitions of its own stock? If so, are the amounts associated with these reacquired shares properly reflected in the financial statements as a reduction in equity? Is the presentation in accordance with applicable state laws?
  - l.* Are there any restrictions or appropriations on retained earnings or other capital accounts? If so, are these restrictions or appropriations properly reflected in the financial statements?

14. Revenue and Expenses

- a. What is the entity's revenue recognition policy? Is the policy appropriate? Has the policy been consistently applied and appropriately disclosed?
- b. Are revenues from sales of products and rendering of services recognized in the appropriate reporting period (that is, when the products have been delivered and when the services have been performed)?
- c. Were any sales recorded under a "bill and hold" arrangement? If yes, have the criteria been met to record the transaction as a sale?
- d. Are purchases and expenses recognized in the appropriate reporting period (that is, matched against revenue) and properly classified in the financial statements?
- e. Do the financial statements include discontinued operations, items that might be considered extraordinary, or both? If so, are amounts associated with discontinued operations, extraordinary items, or both properly displayed in the income statement?
- f. Does the entity have any gains or losses that would necessitate the display of comprehensive income (for example, gains/losses on available-for-sale securities or cash flow hedge derivatives)? If so, have these items been properly displayed within comprehensive income (rather than included in the determination of net income)?

15. Other

- a. Have events occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements?
- b. Has the entity considered whether declines in market values subsequent to the balance sheet date may be permanent and/or caused the entity to no longer be in compliance with its loan covenants?
- c. Have actions taken at stockholders, directors, committees of directors, or comparable meetings that affect the financial statements been reflected in the financial statements?
- d. Are significant estimates and material concentrations (for example, customers or suppliers) properly disclosed in the financial statements?
- e. Are there plans or intentions that may materially affect the carrying amounts or classification of assets and liabilities reflected in the financial statements?
- f. Have there been any material transactions between or among related parties (for example, sales, purchases, loans, or leasing arrangements)? If so, are these transactions properly disclosed in the financial statements?
- g. Are there uncertainties that could have a material impact on the financial statements? Is there any change in the status of previously disclosed material uncertainties? Are all uncertainties, including going concern matters, that could have a material impact on the financial statements properly disclosed in the financial statements?
- h. Are barter or other nonmonetary transactions properly recorded and disclosed? Have nonmonetary asset exchanges involving commercial substance been reflected in the financial statements at fair value? Have nonmonetary asset exchanges not involving commercial substance been reflected in the financial statements at carrying value?

[Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered and amended, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Revised, September 2005, to reflect conforming changes necessary due to the issuance of recent authoritative literature. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008. Paragraph revised, December 2008. Paragraph revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]



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## Appendix C

### Compilation of Financial Statements—Illustrative Engagement Letter

#### *[Appropriate Salutation]*

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

We will perform the following services:

We will compile, from information you provide, the annual [*and interim, if applicable*] balance sheet and related statements of income, retained earnings, and cash flows of XYZ Company for the year 20XX.

We will compile the financial statements and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to present in the form of financial statements, information that is the representation of management (owners) without undertaking to express any assurance on the financial statements.

A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for expressing any level of assurance on the financial statements being compiled.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our compilation procedures, that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

As part of our engagement, we will also (list any nonattest services to be performed, if applicable, such as income tax preparation and bookkeeping services).

You are responsible for:

- a. Making all management decisions and performing all management functions;
- b. Designating an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- c. Evaluating the adequacy and results of the services performed;

- d. Accepting responsibility for the results of the services; and
- e. Establishing and maintaining internal control, including monitoring ongoing activities.

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

Our fees for these services . . . .

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

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

Sincerely yours,

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[Signature of accountant]

Acknowledged:

XYZ Company

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President

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Date

[Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Revised, September 2005, to reflect conforming changes necessary due to the issuance of SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17.]

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

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## Appendix D

### Compilation of Financial Statements Not Intended for Third Party Use—Illustrative Engagement Letter

*[Appropriate Salutation]*

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

We will perform the following services:

We will compile, from information you provide, the *[monthly, quarterly, or other frequency]* financial statements of XYZ Company for the year 20XX.

We will compile the financial statements in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation engagement is to present in the form of financial statements, information that is the representation of management (owners) without undertaking to express any assurance on the financial statements.

A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for expressing any level of assurance on the financial statements being compiled.

The financial statements will not be accompanied by a report. Based upon our discussions with you, these statements are for management's use only and are not intended for third-party use.

Material departures from generally accepted accounting principles (GAAP) may exist and the effects of those departures, if any, on the financial statements may not be disclosed. In addition substantially all disclosures required by GAAP may be omitted. (The accountant may wish to identify known departures.) Notwithstanding these limitations, you represent that you have knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements that allows you to place the financial information in the proper context. Further, you represent and agree that the use of the financial statements will be limited to members of management with similar knowledge.

The financial statements are intended solely for the information and use of *[include list of specified members of management]* and are not intended to be and should not be used by any other party—*[optional]*.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our compilation procedures, that fraud may have occurred. In addition, we will report to you any evidence or

information that comes to our attention during the performance of our compilation procedures, regarding illegal acts that may have occurred unless they are clearly inconsequential.

We are not independent with respect to *[name of entity]* *[if applicable]*.

As part of our engagement, we will also (list any nonattest services to be provided, if applicable, such as income tax preparation and bookkeeping services).

You are responsible for:

- a. Making all management decisions and performing all management functions;
- b. Designating an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- c. Evaluating the adequacy and results of the services performed;
- d. Accepting responsibility for the results of the services; and
- e. Establishing and maintaining internal control, including monitoring ongoing activities.

The other data accompanying the financial statements are presented only for supplementary analysis purposes and will be compiled from information that is the representation of management, without audit or review, and we do not express an opinion or any other form of assurance on such data—*[if applicable]*.

Our fees for these services . . .

Should you require financial statements for third-party use, we would be pleased to discuss with you the requested level of service. Such engagement would be considered separate and not deemed to be part of the services described in this engagement letter.

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

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

Sincerely yours,

\_\_\_\_\_  
*[Signature of accountant]*

Accepted and agreed to:  
XYZ Company

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

[Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July

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

2005. Revised, September 2005, to reflect conforming changes necessary due to the issuance of SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17.]

## Appendix E

### Review of Financial Statements—Illustrative Engagement Letter

*[Appropriate Salutation]*

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

We will perform the following services:

We will review the financial statements of XYZ Company as of December 31, 20XX, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a review engagement is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in accordance with generally accepted accounting principles.

A review differs significantly from an audit of financial statements, in which the auditor provides reasonable assurance that the financial statements, taken as a whole, are free of material misstatement. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); and other procedures ordinarily performed in an audit. Accordingly, a review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit. Therefore, a review provides only limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our review procedures, that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our review procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

As part of our engagement, we will also (list any nonattest services to be provided, if applicable, such as income tax preparation and bookkeeping services).

You are responsible for:

- a. Making all management decisions and performing all management functions;
- b. Designating an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- c. Evaluating the adequacy and results of the services performed;

- d. Accepting responsibility for the results of the services; and
- e. Establishing and maintaining internal control, including monitoring ongoing activities.

As part of our review procedures, we will require certain written representations from management about the financial statements and matters related thereto.

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

Our fees for these services. . . .

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

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

Sincerely yours,

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[Signature of accountant]

Acknowledged:

XYZ Company

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President

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Date

[Paragraph renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Revised, September 2005, to reflect conforming changes necessary due to the issuance of SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17.]

## Appendix F

### Review of Financial Statements—Illustrative Representation Letter

A review of financial statements consists principally of inquiries of company personnel and analytical procedures applied to financial data. As part of a review of financial statements, the accountant is required to obtain a written representation from his or her client to confirm the oral representations made to the accountant. The introductory paragraph should specify the financial statements and periods covered by the accountant's review report.

If matters exist that should be disclosed to the accountant, they should be indicated by listing them following the representation. For example, if an event subsequent to the date of the balance sheet has been disclosed in the financial statements, the subsequent events paragraph could be modified as follows: "To the best of our knowledge and belief, except as discussed in Note X to the financial statements, no events have occurred. . . ." Similarly, in appropriate circumstances, item 4 could be modified as follows: "The company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, except for our plans to dispose of Segment A, as disclosed in Note X to the financial statements, which are discussed in the minutes of the December 7, 20X1, meeting of the board of directors."

The following representation letter is included for illustrative purposes only. The accountant may decide, based on the circumstances of the review engagement or the industry in which the entity operates, that other matters should be specifically included in the letter or that some of the representations included in the illustrative letter are not necessary.

(Date<sup>1</sup>)

(To the Accountant)

We are providing this letter in connection with your review of the (identification of financial statements) of (name of entity) as of (dates, for example, December 31, 20X1 and December 31, 20X2) and for the (periods of review, for example, for the years then ended) for the purpose of expressing limited assurance that there are no material modifications that should be made to the statements in order for them to be in conformity with generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the

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<sup>1</sup> This date should be the date that the client presents and signs the letter. In no event should the letter be presented and signed prior to the date of the accountant's review report. [Footnote added, August 2004, to reflect conforming changes necessary due to the issuance of SSARS No. 10. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]



light of surrounding circumstances, makes it probable that the judgment of a reasonable person using the information would be changed or influenced by the omission or misstatement.<sup>2</sup>

We confirm, to the best of our knowledge and belief, [as of (*the date of the accountant's review report*)] the following representations made to you during your review.

1. The financial statements referred to previously are fairly presented in conformity with generally accepted accounting principles.
2. We have made available to you all:
  - a. Financial records and related data.
  - b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
4. We acknowledge our responsibility to prevent and detect fraud.
5. We have no knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, including any communications received from employees, former employees or others.
6. We have no plans or intentions that may materially affect the carrying amounts or classification of assets and liabilities.
7. There are no material losses (such as from obsolete inventory or purchase or sales commitments) that have not been properly accrued or disclosed in the financial statements.
8. There are no:
  - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency
  - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion that must be disclosed in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 450, *Contingencies*.<sup>3</sup>
  - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450

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<sup>2</sup> The qualitative discussion of materiality used in this letter is adapted from Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Information*. [Footnote renumbered, August 2004, to reflect conforming changes necessary due to the issuance of SSARS No. 10.]

<sup>3</sup> If management has not consulted a lawyer regarding litigation, claims, and assessments, the representation might be worded as follows:

We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Financial Accounting Standards Board *Accounting Standards Codification* 450, *Contingencies*, and we have not consulted a lawyer concerning litigation, claims, or assessments.

[Footnote renumbered, August 2004, to reflect conforming changes necessary due to the issuance of SSARS No. 10. Footnote revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]

9. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed to you and reported in the financial statements.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
11. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the company is contingently liable.
  - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, *Risks and Uncertainties*. [Significant estimates are estimates at the balance sheet date that could change materially with the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.]

*[Add additional representations that are unique to the entity's business or industry. See the following for additional illustrative representations.]*

12. We are in agreement with the adjusting journal entries you have recommended, and they have been posted to the company's accounts. (if applicable)
13. To the best of our knowledge and belief, no events have occurred subsequent to the balance-sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.<sup>4</sup>
14. We have responded fully and truthfully to all inquiries made to us by you during your review.

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(Name of Owner or Chief Executive Officer and Title)

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

Representation letters ordinarily should be tailored to include additional appropriate representations from management relating to matters specific to the entity's business or industry. The following is a list of additional representations that may be appropriate in certain situations. This list is not intended to be all-inclusive. The accountant should consider the effects of pronouncements issued subsequent to the issuance of this section.

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<sup>4</sup> If the accountant "dual dates" his or her report, the accountant should consider whether obtaining additional representations relating to the subsequent event is appropriate. [Footnote added, August 2004, to reflect conforming changes necessary due to the issuance of SSARS No. 10.]

<i>General</i>	
<i>Condition</i>	<i>Illustrative Examples</i>
The impact of a new accounting principle is not known.	We have not completed the process of evaluating the impact that will result from adopting the guidance in Financial Accounting Standards Board (FASB) <i>Accounting Standards Codification</i> <sup>TM</sup> (ASC) Update 20YY-XX, as discussed in note [X]. The company is therefore unable to disclose the impact that adopting the guidance in FASB ASC Update 20YY-XX will have on its financial position and the results of operations when such statement is adopted.
There is justification for a change in accounting principles.	We believe that [ <i>describe the newly adopted accounting principle</i> ] is preferable to [ <i>describe the former accounting principle</i> ] because [ <i>describe management's justification for the change in accounting principles</i> ].
Financial circumstances are strained, with disclosure of management's intentions and the entity's ability to continue as a going concern.	Note [X] to the financial statements discloses all of the matters of which we are aware that are relevant to the company's ability to continue as a going concern, including significant conditions and events, and management's plans.
The possibility exists that the value of specific significant long-lived assets or certain identifiable intangibles may be impaired.	We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable and have appropriately recorded the adjustment.
The entity has a variable interest in another entity.	<p>Variable interest entities (VIEs) and potential VIEs and transactions with VIEs and potential VIEs have been properly recorded and disclosed in the financial statements in accordance with GAAP.</p> <p>We have considered both implicit and explicit variable interests in (a) determining whether potential VIEs should be considered VIEs, (b) calculating expected losses and residual returns, and (c) determining which party, if any, is the primary beneficiary.</p> <p>We have provided you with lists of all identified variable interests in (a) VIEs, (b) potential VIEs that we considered but judged not to be VIEs, and (c) entities that were afforded the scope exceptions of FASB ASC 810, <i>Consolidation</i>.</p>

(continued)

<i>General</i>	
<i>Condition</i>	<i>Illustrative Examples</i>
	<p>We have advised you of all transactions with identified VIEs, potential VIEs, or entities afforded the scope exceptions of FASB ASC 810.</p> <p>We have made available all relevant information about financial interests and contractual arrangements with related parties, de facto agents, and other entities, including but not limited to their governing documents, equity and debt instruments, contracts, leases, guarantee arrangements, and other financial contracts and arrangements.</p> <p>The information we provided about financial interests and contractual arrangements with related parties, de facto agents, and other entities includes information about all transactions, unwritten understandings, agreement modifications, and written and oral side agreements.</p> <p>Our computations of expected losses and expected residual returns of entities that are VIEs and potential VIEs are based on the best information available and include all reasonably possible outcomes.</p> <p>Regarding entities in which the Company has variable interests (implicit and explicit), we have provided all information about events and changes in circumstances that could potentially cause reconsideration about whether the entities are VIEs or whether the Company is the primary beneficiary or has a significant variable interest in the entity.</p> <p>We have made and continue to make exhaustive efforts to obtain information about entities in which the Company has an implicit or explicit interest but that were excluded from complete analysis under FASB ASC 810 due to lack of essential information to determine one or more of the following: whether the entity is a VIE, whether the Company is the primary beneficiary, or what accounting is required to consolidate the entity.</p>
The work of a specialist has been used by the entity.	<p>We agree with the findings of specialists in evaluating the [<i>describe assertion</i>] and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.</p>

<i>Assets</i>	
<i>Condition</i>	<i>Illustrative Examples</i>
Cash Disclosure is required of compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.	Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements have been properly disclosed.
Financial Instruments Management intends to and has the ability to hold to maturity debt securities classified as held-to-maturity.	Debt securities that have been classified as held-to-maturity have been so classified due to the company's intent to hold such securities to maturity and the company's ability to do so. All other debt securities have been classified as available-for-sale or trading.
Management considers the decline in value of debt or equity securities to be temporary.	We consider the decline in value of debt or equity securities classified as either available-for-sale or held-to-maturity to be temporary.
Management has determined the fair value of significant financial instruments that do not have readily determinable market values.	The methods and significant assumptions used to determine fair values of financial instruments are as follows: [ <i>describe methods and significant assumptions used to determine fair values of financial instruments</i> ]. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
There are financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk.	The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements: <ol style="list-style-type: none"> <li>1. The extent, nature, and terms of financial instruments with off-balance-sheet risk.</li> <li>2. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments.</li> <li>3. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.</li> </ol>

(continued)

<b>Assets</b>	
<b>Condition</b>	<b>Illustrative Examples</b>
Receivables Receivables have been recorded in the financial statements.	Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
Inventories Excess or obsolete inventories exist.	Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.
Investments There are unusual considerations involved in determining the application of equity accounting.	<p><i>[For investments in common stock that are either nonmarketable or of which the entity has a 20 percent or greater ownership interest, select the appropriate representation from the following:]</i></p> <ul style="list-style-type: none"> <li>• The equity method is used to account for the company's investment in the common stock of [investee] because the company has the ability to exercise significant influence over the investee's operating and financial policies.</li> <li>• The cost method is used to account for the company's investment in the common stock of [investee] because the company does not have the ability to exercise significant influence over the investee's operating and financial policies.</li> </ul>
Deferred Charges Material expenditures have been deferred.	We believe that all material expenditures that have been deferred to future periods will be recoverable.
Deferred Tax Assets A deferred tax asset exists at the balance-sheet date.	<p>The valuation allowance has been determined pursuant to the provisions of FASB ASC 740, <i>Income Taxes</i>, including the company's estimation of future taxable income, if necessary, and is adequate to reduce the total deferred tax asset to an amount that will more likely than not be realized. <i>[Complete with appropriate wording detailing how the entity determined the valuation allowance against the deferred tax asset.]</i></p> <p>or</p> <p>A valuation allowance against deferred tax assets at the balance-sheet date is not considered necessary because it is more likely than not the deferred tax asset will be fully realized.</p>

<b><i>Liabilities</i></b>	
<b><i>Condition</i></b>	<b><i>Illustrative Examples</i></b>
<p>Debt</p> <p>Short-term debt could be refinanced on a long-term basis and management intends to do so.</p>	<p>The company has excluded short-term obligations totaling \$[<i>amount</i>] from current liabilities because it intends to refinance the obligations on a long-term basis. [<i>Complete with appropriate wording detailing how amounts will be refinanced as follows:</i>]</p> <ul style="list-style-type: none"> <li>• The Company has issued a long-term obligation [<i>debt security</i>] after the date of the balance sheet but prior to the issuance of the financial statements for the purpose of refinancing the short-term obligations on a long-term basis.</li> <li>• The Company has the ability to consummate the refinancing by using the financing agreement referred to in Note [X] to the financial statements.</li> </ul>
<p>Tax-exempt bonds have been issued.</p>	<p>Tax-exempt bonds issued have retained their tax-exempt status.</p>
<p>Taxes</p> <p>Management intends to reinvest undistributed earnings of a foreign subsidiary.</p>	<p>We intend to reinvest the undistributed earnings of [<i>name of foreign subsidiary</i>].</p>
<p>Contingencies</p> <p>Estimates and disclosures have been made of environmental remediation liabilities and related loss contingencies.</p>	<p>Provision has been made for any material loss that is probable from environmental remediation liabilities associated with [<i>name of site</i>]. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the company's financial statements.</p>
<p>Agreements may exist to repurchase assets previously sold.</p>	<p>Agreements to repurchase assets previously sold have been properly disclosed.</p>
<p>Pension and Postretirement Benefits</p> <p>An actuary has been used to measure pension liabilities and costs.</p>	<p>We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.</p>

(continued)

<b><i>Liabilities</i></b>	
<b><i>Condition</i></b>	<b><i>Illustrative Examples</i></b>
There is involvement with a multiemployer plan.	We are unable to determine the possibility of a withdrawal liability in a multiemployer benefit plan. or We have determined that there is the possibility of a withdrawal liability in a multiemployer plan in the amount of \$[XX].
Postretirement benefits have been eliminated.	We do not intend to compensate for the elimination of postretirement benefits by granting an increase in pension benefits. or We plan to compensate for the elimination of postretirement benefits by granting an increase in pension benefits in the amount of \$[XX].
Employee layoffs that would otherwise lead to a curtailment of a benefit plan are intended to be temporary.	Current employee layoffs are intended to be temporary.
Management intends to either continue to make or not make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service cost, or has expressed a substantive commitment to increase benefit obligations.	We plan to continue to make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service cost. or We do not plan to make frequent amendments to its pension or other postretirement benefit plans.
<b><i>Equity</i></b>	
<b><i>Condition</i></b>	<b><i>Illustrative Example</i></b>
There are capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements.	Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements have been properly disclosed.



<i>Income Statement</i>	
<i>Condition</i>	<i>Illustrative Examples</i>
There may be a loss from sales commitments.	Provisions have been made for losses to be sustained in the fulfillment of or from inability to fulfill any sales commitments.
There may be losses from purchase commitments.	Provisions have been made for losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.
Nature of the product or industry indicates the possibility of undisclosed sales terms.	We have fully disclosed to you all sales terms, including all rights of return or price adjustments and all warranty provisions.

[Paragraph renumbered and amended, effective November 2002, by SSARS No. 9. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by the issuance of SSARS No. 15. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17. Paragraph revised, June 2009, to reflect conforming changes necessary due to the issuance of FASB ASC.]

## Appendix G

### Review of Financial Statements—Illustrative Updating Management Representation Letter

The following letter is presented for illustrative purposes only. It may be used in the circumstances described in paragraph .40 of this section. Management need not repeat all of the representations made in the previous representation letter.

If matters exist that should be disclosed to the accountant, they should be indicated by listing them following the representation. For example, if an event subsequent to the date of the accountant's review report is disclosed in the financial statements, the final paragraph could be modified as follows: "To the best of our knowledge and belief, except as discussed in Note X to the financial statements, no events have occurred. . ."

[Date]<sup>1</sup>

To [Accountant]

In connection with your review(s) of the [*identification of financial statements*] of [*name of entity*] as of [*dates*] and for the [*periods of review*] for the purpose of expressing limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with generally accepted accounting principles, you were previously provided with a representation letter under date of [*date of previous representation letter*]. No information has come to our attention that would cause us to believe that any of those previous representations should be modified.

To the best of our knowledge and belief, no events have occurred subsequent to [*date of latest balance sheet reported on by the accountant or date of previous representation letter*] and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

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[*Name of Owner or Chief Executive Officer and Title*]

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[*Name of Chief Financial Officer and Title, where applicable*]

[Paragraph added, effective for reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

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<sup>1</sup> The accountant has two methods available for dating the report when a subsequent event requiring disclosure occurs after the completion of the review but before issuance of the report on the related financial statements. The accountant may use "dual dating," for example, "February 16, 20XX, except for Note Y, as to which the date is March 1, 20XX," or may date the report as of the later date. [Footnote added, effective for reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12.]

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## Appendix H

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

[Paragraph renumbered and deleted by the issuance of SSARS No. 8, October 2000. Paragraph subsequently renumbered by the issuance of SSARS No. 9, November 2002. Paragraph subsequently renumbered by the issuance of SSARS No. 10, May 2004. Paragraph subsequently renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered by the issuance of SSARS No. 15, July 2007. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Appendix I

### Analytical Procedures the Accountant May Consider Performing When Conducting a Review of Financial Statements

Analytical procedures are designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement of the financial statements. The analytical procedures performed in a review of financial statements are a matter of the accountant's professional judgment. In determining the appropriate analytical procedures, an accountant may consider (a) the nature and materiality of the items reflected in the financial statements, (b) the likelihood of a misstatement in the financial statements, (c) knowledge obtained during current and previous engagements, (d) the stated qualifications of the entity's accounting personnel, (e) the extent to which a particular item is affected by management's judgment, and (f) inadequacies in the entity's underlying financial data.

The following list of analytical procedures is for illustrative purposes only. These analytical procedures will not necessarily be applicable in every review engagement, nor are these analytical procedures meant to be all-inclusive. These illustrative analytical procedures are not intended to serve as a program or checklist to be utilized in performing a review engagement. Examples of analytical procedures an accountant may consider performing in a review of financial statements include:

- Comparing financial statements with statements for comparable prior period(s).
- Comparing current financial information with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes and pretax income in the current financial information with corresponding information in (a) budgets, using expected rates, and (b) financial information for prior periods).<sup>1</sup>
- Comparing current financial information with relevant nonfinancial information.
- Comparing ratios and indicators for the current period with expectations based on prior periods, for example, performing gross profit analysis by product line and operating segment using elements of the current financial information and comparing the results with corresponding information for prior periods. Examples of key ratios and indicators are the current ratio, receivables turnover or days' sales outstanding, inventory turnover, depreciation to average fixed assets, debt to equity, gross profit percentage, net income percentage, and plant operating rates.

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<sup>1</sup> The accountant should exercise caution when comparing and evaluating current financial information with budgets, forecasts, or other anticipated results because of the inherent lack of precision in estimating the future and the susceptibility of such information to manipulation and misstatement by management to reflect desired results. [Footnote added, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10.]

- Comparing ratios and indicators for the current period with those of entities in the same industry.
- Comparing relationships among elements in the current financial information with corresponding relationships in the financial information of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.

Analytical procedures may include such statistical techniques as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques.

[Paragraph added, effective for reviews of financial statements for periods ending on or after December 15, 2004, by SSARS No. 10. Paragraph renumbered by the issuance of SSARS No. 12, July 2005. Paragraph renumbered and amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by the issuance of SSARS No. 15. Paragraph renumbered by the issuance of SSARS No. 17, February 2008.]

## Appendix J\*

### Sources of Generally Accepted Accounting Principles

Accountants agree on the existence of a body of generally accepted accounting principles, and they are knowledgeable about these principles and in the determination of their general acceptance. Nevertheless, the determination that a particular accounting principle is generally accepted may be difficult because no single reference source exists for all such principles. The sources of generally accepted accounting principles are:

- a. Accounting principles promulgated by a body designated by the AICPA Council to establish such principles, pursuant to Rule 203 [ET section 203.01] of the *AICPA Code of Professional Conduct*. Rule 203 [ET section 203.01] provides that an accountant should state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles unless, due to unusual circumstances, adherence to the pronouncements would make the statements misleading. Rule 203 [ET section 203.01] implies that application of officially established accounting principles almost always results in the fair presentation of financial position, results of operations, and cash flows, in conformity with generally accepted accounting principles. Nevertheless, Rule 203 [ET section 203.01] provides for the possibility that literal application of such a pronouncement might, in unusual circumstances, result in misleading financial statements.
- b. Pronouncements of bodies, composed of expert accountants, that deliberate accounting issues in public forums for the purpose of

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\* The AICPA Accounting and Review Services Committee expects to withdraw this section in the second half of 2009 subsequent to the anticipated issuance by the Federal Accounting Standards Advisory Board of a Statement of Federal Financial Accounting Standards that will incorporate its hierarchy of generally accepted accounting principles (GAAP hierarchy) into its authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of federal reporting entities that are presented in conformity with U.S. GAAP, and the framework for selecting those principles.

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, to incorporate its GAAP hierarchy into its authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP, and the framework for selecting those principles.

In July 2009, FASB approved an online *Accounting Standards Codification*<sup>TM</sup> (ASC), effectively superseding FASB Statement No. 162 because all of the FASB ASC content carries the same level of authority. FASB ASC is now the single authoritative source for nongovernmental U.S. GAAP and supersedes existing sources of nongovernmental U.S. GAAP—except for guidance issued by the Securities and Exchange Commission.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, to incorporate its GAAP hierarchy into its authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with U.S. GAAP, and the framework for selecting those principles. GASB Statement No. 55 is effective upon issuance.

As a result of these developments, this appendix has not been conformed to reflect FASB ASC.

establishing accounting principles or describing existing accounting practices that are generally accepted, provided those pronouncements have been exposed for public comment and have been cleared by a body referred to in category (a).<sup>1</sup>

- c. Pronouncements of bodies, organized by a body referred to in category (a) and composed of expert accountants, that deliberate accounting issues in public forums for the purpose of interpreting or establishing accounting principles or describing existing accounting practices that are generally accepted, or pronouncements referred to in category (b) that have been cleared by a body referred to in category (a) but have not been exposed for public comment.
- d. Practices or pronouncements that are widely recognized as being generally accepted because they represent prevalent practice in a particular industry or the knowledgeable application to specific circumstances of pronouncements that are generally accepted.

Generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance. The accountant should consider whether the substance of transactions or events differs materially from their form.

If the accounting treatment of a transaction or event is not specified by a pronouncement covered by Rule 203 [ET section 203.01], the accountant should consider whether the accounting treatment is specified by another source of established accounting principles. If an established accounting principle from one or more sources in category (b), (c), or (d) is relevant to the circumstances, the accountant should be prepared to justify a conclusion that another treatment is generally accepted. If there is a conflict between accounting principles relevant to the circumstances from one or more sources in category (b), (c), or (d), the accountant should follow the treatment specified by the source in the higher category, for example, follow category (b) treatment over category (c), or be prepared to justify a conclusion that a treatment specified by a source in the lower category better presents the substance of the transaction in the circumstances.

The accountant should be aware that the accounting requirements adopted by regulatory agencies for reports filed with them may differ from generally accepted accounting principles in certain respects.

Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting an accounting principle that appears appropriate when applied in a manner similar to the application of an established principle to an analogous transaction or event.

## Application to Nongovernmental Entities

For financial statements of entities other than governmental entities:

- a. Category (a), officially established accounting principles, consists of Financial Accounting Standards Board (FASB) Statements of

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<sup>1</sup> For purposes of this section, the word *cleared* means that a body referred to in subparagraph (a) has indicated that it does not object to the issuance of the proposed pronouncement.

Financial Accounting Standards and Interpretations, Accounting Principles Board (APB) Opinions, and AICPA Accounting Research Bulletins.

- b. Category (b) consists of FASB technical bulletins and, if cleared<sup>2</sup> by the FASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.
- c. Category (c) consists of AICPA Accounting Standards Executive Committee (AcSEC) practice bulletins that have been cleared<sup>3</sup> by the FASB and consensus positions of the FASB Emerging Issues Task Force.
- d. Category (d) includes AICPA accounting interpretations and implementation guides ("Qs and As") published by the FASB staff, and practices that are widely recognized and prevalent either generally or in the industry.

In the absence of a pronouncement covered by Rule 203 [ET section 203.01] or another source of established accounting principles, the accountant performing the compilation or review of financial statements of entities other than governmental entities may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes, for example, FASB Statements of Financial Accounting Concepts; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; Governmental Accounting Standards Board (GASB) statements, interpretations, and technical bulletins; Federal Accounting Standards Advisory Board (FASAB) statements, interpretations, and technical bulletins; pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASB Statements of Financial Accounting Concepts would normally be more influential than other sources in this category.

## Application to State and Local Governmental Entities

For financial statements of state and local governmental entities:<sup>4</sup>

- a. Category (a), officially established accounting principles, consists of GASB Statements and Interpretations, as well as AICPA and FASB pronouncements specifically made applicable to state and local governmental entities by GASB Statements or Interpretations. GASB Statements and Interpretations are periodically incorporated in the *Codification of Governmental Accounting and Financial Reporting Standards*.
- b. Category (b) consists of GASB technical bulletins and, if specifically made applicable to state and local governmental entities by

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<sup>2</sup> The accountant should assume that such pronouncements have been cleared by the FASB unless the pronouncement indicates otherwise.

<sup>3</sup> The accountant should assume that such pronouncements have been cleared by the FASB unless the pronouncement indicates otherwise.

<sup>4</sup> State and local governmental entities include public benefit corporations and authorities; public employee retirement systems; and governmental utilities, hospitals and other health care providers, and colleges and universities.



the AICPA and cleared<sup>5</sup> by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.

- c. Category (c) consists of AICPA AcSEC practice bulletins if specifically made applicable to state and local governmental entities and cleared<sup>6</sup> by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities.<sup>7</sup>
- d. Category (d) includes implementation guides ("Qs and As") published by the GASB staff, as well as practices that are widely recognized and prevalent in state and local government.

In the absence of a pronouncement covered by Rule 203 [ET section 203.01] or another source of established accounting principles, the accountant of compiled or reviewed financial statements of state and local governmental entities may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes, for example, GASB concepts statements; the pronouncements referred to in categories (a) through (d) when not specifically made applicable to state and local governmental entities either by the GASB or by the organization issuing them; FASB concepts statements; FASAB statements, interpretations, technical bulletins, and concepts statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, GASB concepts statements would normally be more influential than other sources in this category.

## Application to Federal Governmental Entities

For financial statements of federal governmental entities:<sup>8</sup>

- a. Category (a), officially established accounting principles, consists of FASAB statements and interpretations, as well as AICPA and FASB pronouncements specifically made applicable to federal governmental entities by FASAB statements or interpretations. FASAB statements and interpretations will be periodically incorporated in a publication by the FASAB.
- b. Category (b) consists of FASAB technical bulletins and, if specifically made applicable to federal governmental entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.<sup>9</sup>

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<sup>5</sup> The accountant should assume that such pronouncements specifically made applicable to state and local governments have been cleared by the GASB unless the pronouncement indicates otherwise.

<sup>6</sup> The accountant should assume that such pronouncements specifically made applicable to state and local governments have been cleared by the GASB unless the pronouncement indicates otherwise.

<sup>7</sup> As of the date of this appendix, the GASB had not organized such a group.

<sup>8</sup> Federal Accounting Standards Advisory Board (FASAB) Concepts Statement No. 2, *Entity and Display*, defines federal governmental entities.

<sup>9</sup> The accountant should assume that such pronouncements specifically made applicable to federal governmental entities have been cleared by the FASAB unless the pronouncement indicates otherwise.

- c. Category (c) consists of AICPA AcSEC practice bulletins if specifically made applicable to federal governmental entities and cleared by the FASAB, as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.
- d. Category (d) includes implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

In the absence of a pronouncement covered by Rule 203 [ET section 203.01] or another source of established accounting principles, the accountant of compiled or reviewed financial statements of a federal governmental entity may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes, for example, FASAB concepts statements; the pronouncements referred to in categories (a) through (d) when not specifically made applicable to federal governmental entities by the FASAB; FASB concepts statements; GASB statements, interpretations, technical bulletins, and concepts statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASAB concepts statements would normally be more influential than other sources in this category. [Paragraph added, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by the issuance of SSARS No. 15.]

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## AR Section 9100

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

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

**.01 Question**—Paragraphs 19.–22. of Statement on Standards for Accounting and Review Services (SSARS) No. 1, *Compilation and Review of Financial Statements* (sec. 100 par. .19–.22), provides guidance to the accountant when a departure from GAAP relates to the omission of substantially all disclosures in the financial statements that he has compiled. Paragraph 56 of SSARS No. 1 (sec. 100 par. .56) states that, in all other circumstances, an accountant should consider whether modification of his standard report is adequate to disclose a departure from generally accepted accounting principles (GAAP). When a departure from GAAP relates to the omission of substantially all disclosures in financial statements that the accountant has reviewed, is disclosure of such omission in a separate paragraph of the accountant's report similar to the example in paragraph 22. of SSARS No. 1 (sec. 100 par. .22) an adequate modification of his report?

**.02 Interpretation**—No. The guidance in paragraphs 19.–22. of SSARS No. 1 (sec. 100 par. .19–.22) only applies when financial statements that the accountant has *compiled* omit substantially all of the disclosures required by GAAP or an other comprehensive basis of accounting. Because of the reporting requirements of SSARS No. 1 [sec. 100], an accountant ordinarily would not accept an engagement to review financial statements that omit substantially all of the disclosures required by GAAP. When an accountant who undertakes to *review* financial statements subsequently finds that his client declines to include substantially all required disclosures, his review report should include the disclosures omitted from the statements. However, if the information required to be disclosed has not been determined by management or is not known as the result of the accountant's procedures, the accountant is not required to determine the specific information that should be disclosed. In that circumstance, the accountant's report should specifically identify the nature of the omitted disclosures.

[Issue Date: December 1979; Revised: November 2002; Revised: May 2004;  
Revised: July 2005.]

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

**[.03–.05]** [Withdrawn, December 2008, by the Accounting and Review Services Committee.]

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

**.06 Question**—Paragraphs 4. and 9. of SSARS No. 1 (sec. 100 par. .04 and par. .09) recognize that an accountant may consider it necessary to perform other accounting services to enable him to compile financial statements. Paragraph 2 of SSARS No. 1 (sec 100 par. .02) provides that when an accountant performs more than one service with respect to the financial statements of an

entity he should issue the report that is appropriate for the highest level of service rendered. Does paragraph 2. of SSARS No. 1 (sec. 100 par. .02) require the accountant to evaluate the extent of other accounting services he has performed in a compilation engagement to report on financial statements and to decide whether a review report should be issued instead of a compilation report?

**.07 Interpretation**—No. SSARS No. 1 (sec. 100) requires the accountant to issue a report whenever he completes and reports on a compilation or performs a review of the financial statements of a nonissuer. The statement that the accountant should issue a report that is appropriate for the highest level of service rendered is intended to make clear that if, for example, the accountant has both reported on compiled financial statements and reviewed the financial statements that he was engaged to review, he would need to issue only a review report.

**.08 SSARS No. 1 (sec. 100)** imposes no requirement for the accountant to "upgrade" his report because he has performed other accounting services. However, the accountant may wish to evaluate whether, as a result of performing such services, he is in a position to issue a review report when he was engaged only to report on a compilation. In such circumstances, he may wish to discuss the matter with his client and they may decide to revise their understanding regarding the nature of the services to be rendered.

**.09 Question**—An entity may wish to engage an accountant to report on compiled financial statements each month and also to review the financial statements of the entity for a quarterly or an annual period. May an accountant issue a compilation report on the monthly financial statements and a review report on quarterly or annual financial statements for a period ending on the same date as one of the monthly financial statements?

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

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

**.12 Interpretation**—Yes. SSARS No. 1 (sec. 100) does not prohibit the accountant from accepting an engagement to perform a higher level of service with respect to financial statements that have been previously compiled or reviewed.

[Issue Date: December 1979; Revised: October 2000;  
Revised: February 2008.]

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

[**.13-.15**] [Rescinded, July 2007, by Statement on Standards for Accounting and Review Services No. 15.]

### **5. Planning and Supervision**

**.16 Question**—Rule 201C, *General Standards* [ET sec. 201 par. .01C] states: "Adequately plan and supervise the performance of professional services." Although SAS No. 22, *Planning and Supervision* (AU sec. 311), deals with these matters in the context of an audit in accordance with generally accepted auditing standards, SSARS No. 1 (sec. 100) does not provide specific

guidance for the planning and supervision of a compilation or review engagement. In the absence of specific guidance on planning and supervision in SSARS No. 1 (sec. 100), is an accountant required to follow the guidance provided in SAS No. 22 (AU sec. 311) in the context of a compilation or review engagement for a nonissuer?

**.17 Interpretation**—No. SASs do not govern engagements to compile or review financial statements of a nonissuer. However, an accountant may wish to consider SAS No. 22 [AU sec. 311] or other reference sources, such as textbooks and articles, when he needs additional information on planning and supervision. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

[Issue Date: August 1981; Revised: November 2002; Revised: February 2008.]

## 6. Withdrawal From Compilation or Review Engagement

**.18 Question**—Paragraph 58 of SSARS No. 1 [sec. 100 par. .58] states: "If the accountant believes that modification of his standard report is not adequate to indicate the deficiencies in the financial statements taken as a whole, he should withdraw from the compilation or review engagement and provide no further services with respect to those financial statements." Under what circumstances would the accountant ordinarily conclude that it is necessary to withdraw from a compilation or review engagement?

**.19 Interpretation**—Modification of the accountant's standard report as described in paragraph 57. of SSARS No. 1 [sec. 100 par. .57] ordinarily should be adequate to indicate the deficiencies in the financial statements taken as a whole. However, in some circumstances, likely to be rare and unusual, the nature, extent, and probable effect of the departures from GAAP or an other comprehensive basis of accounting might cause the accountant to question whether the departures were undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. In those circumstances, withdrawal from the compilation or review engagement might be necessary; however, the accountant ordinarily would not make a decision to withdraw when the client agreed that the effects of the departures should be determined and disclosed in the accountant's report.

**.20** As an illustration, the client may have entered into a number of leasing arrangements that might be required to be capitalized under Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 840, *Leases*. The client may not wish to capitalize such leases and may not have determined the effect of this departure from GAAP. However, the client may be willing to disclose in the financial statements information such as the nature of the leased property, the payments required under the leases, and other important terms of the leases. In those circumstances, the accountant is not likely to conclude that the departure was undertaken with the intention of misleading users, even though the effect of the departure is not quantified in the financial statements or the accountant's report.

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

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

[Issue Date: August 1981; Revised: November 2002; Revised: May 2004;  
Revised: July 2005; Revised: June 2009.]

## **7. Reporting When There Are Significant Departures From GAAP**

**.23 Question**—When the financial statements include significant departures from GAAP or an other comprehensive basis of accounting, may the accountant modify his standard report under paragraph 57. of SSARS No. 1 [sec. 100 par. .57] to include a statement that the financial statements are not in conformity with GAAP or an other comprehensive basis of accounting?

**.24 Interpretation**—No. Including such a statement in the accountant's compilation or review report would be tantamount to expressing an adverse opinion on the financial statements taken as a whole. Such an opinion can be expressed only in the context of an audit engagement. Furthermore, such a statement in a review report would confuse users because it would contradict the expression of limited assurance required by paragraph 46.(e) of SSARS No. 1 [sec. 100 par. .46e].

**.25** However, footnote 30 to paragraph 57. of SSARS No. 1 [sec. 100 par. .57, footnote 30] indicates that the accountant is not precluded from emphasizing in a separate paragraph of his report a matter regarding the financial statements. The accountant may wish, therefore, to emphasize the limitations of the financial statements in a separate paragraph of his compilation or review report, depending on his assessment of the possible dollar magnitude of the effects of the departures, the significance of the affected items to the entity, the pervasiveness and overall impact of the misstatements, and whether disclosure has been made of the effects of the departures. Such separate paragraph, which would follow the other modifications of his report (see illustrations in paragraph 57. of SSARS No. 1 [sec. 100 par. .57]), might read as follows:

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

**.26** Inclusion of such a separate paragraph in the accountant's compilation or review report is not a substitute for disclosure of the specific departures or the effects of such departures when they have been determined by management or are known as a result of the accountant's procedures. In this connection, see the interpretation entitled "Omission of Disclosures in Reviewed Financial Statements" (paragraphs .01–.02).

[Issue Date: August 1981; Revised: November 2002;  
Revised: May 2004; Revised: July 2005.]

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

**[.27–.28]** [Rescinded, July 2005, by Statement on Standards for Accounting and Review Services No. 13.]

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

**.29 Question**—Paragraph 21. of SSARS No. 1 [sec. 100 par. .21] illustrates a form of standard report appropriate when compiled financial statements omit substantially all disclosures. The third paragraph of that illustrative report begins with this sentence: "Management has elected to omit substantially all of the disclosures . . . required by GAAP." Paragraph 19. of SSARS No. 1 [sec. 100 par. .19] requires the accountant to disclose in his report the fact that compiled financial statements omit substantially all disclosures but does not state that there is a need to indicate that "management has elected" to omit such disclosures. May the accountant modify the wording of his report, for example, to state that "Management has not included substantially all of the disclosures . . ." or "The Company has not included substantially all of the disclosures . . ."?

**.30 Interpretation**—Use of the language in the third paragraph of the standard report in paragraph 21. of SSARS No. 1 [sec. 100 par. .21] is encouraged; it was designed to impress upon management and the users of financial statements that omission of substantially all disclosures is the entity's decision, not the accountant's. However, provided the report clearly indicates this, the wording "Management has elected to omit" may be modified. Language such as "These financial statements do not include substantially all of the disclosures . . ." should not be used because some might infer that the decision to omit disclosures was the accountant's.

[Issue Date: May 1982.]

## 10. Reporting on Tax Returns

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

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

[Issue Date: November 1982; Revised: February 2008.]

## [11.] Reporting on Uncertainties

[.33–.40] [Rescinded, February 2007, by the issuance of Interpretation No. 29.]

## [12.] Reporting on a Comprehensive Basis of Accounting Other Than GAAP

[.41–.45] [Rescinded, July 2007, by Statement on Standards for Accounting and Review Services No. 15.]<sup>[1]</sup>

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<sup>[1]</sup> [Footnote deleted by SSARS No. 15, July 2007.]

### 13. Additional Procedures

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

**.47 Interpretation**—No. Paragraph 10. of SSARS No. 1 [sec. 100 par. .10] states that in a compilation engagement there is no requirement "to verify, corroborate, or review information," but it does not preclude the accountant from making inquiries or performing additional procedures. Similarly, paragraph 31. of SSARS No. 1 [sec. 100 par. .31] states that a review engagement "does not contemplate obtaining an understanding of internal control or assessing control risk, tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit." However, it also indicates that there may be circumstances when the accountant "should perform the additional procedures he deems necessary. . . ." These citations make it clear that the standards for performing compilations or reviews of financial statements do not preclude the accountant from performing procedures that he deems necessary or that his client requests.

**.48** Paragraph 5. of SSARS No. 1 [sec. 100 par. .05] does require the accountant to establish an understanding with the entity regarding the services to be performed, including "a description of the report the accountant expects to render," and this understanding establishes the terms and objectives of the engagement. When the accountant, in connection with a compilation or review engagement, plans to perform procedures that are customarily applied during an audit, he may wish to place additional importance on whether his understanding with the client should be in writing.<sup>2</sup>

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

[Issue Date: March 1983; Revised: October 2000;  
Revised: November 2002; Revised: May 2004.]

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

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

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

**.54 Question**—Paragraph 1. of SSARS No. 1 [sec. 100 par. .01] states that the accountant should not submit unaudited financial statements of a non-issuer to his or her client or a third party unless, as a minimum, he or she complies with the provisions of SSARS No. 1 [sec. 100] applicable to a compilation engagement.

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<sup>2</sup> If the engagement is to compile financial statements not expected to be used by a third party, a written communication is required.



**.55** What attributes should an accountant consider when differentiating a financial statement from a trial balance to determine if SSARs apply to the accounting services performed?

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

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

Examples of typical titles for trial balance presentations are:

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

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

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

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

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

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

**.57** The accountant should use judgment when considering these attributes to determine whether the financial presentation constitutes a financial statement or a trial balance. When making this determination, the accountant should consider the preponderance of the attributes of the financial presentation. For example, a trial balance that contains one or two attributes of a financial statement may, in the accountant's judgment, still constitute a trial balance. When the presentation is deemed to be a financial statement and the accountant does not modify the presentation to conform with the attributes of a trial balance, the accountant, at a minimum, should compile the financial statements in accordance with SSARS No. 1 [sec. 100].

[Issue Date: September 1990; Revised: October 2000;  
Revised: February 2008.]

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

[.58–.60] [Withdrawn, November 1992, by SSARS No. 7.]<sup>[3]</sup>

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

**.61 Question**—Accountants frequently submit draft financial statements (1) because information needed to complete a compilation or review of the financial statements will not be available until a later date or (2) to provide the client with the opportunity to read and analyze the financial statements prior to their final issuance. Is it permissible for the accountant to submit draft financial statements without intending to comply with the reporting provisions of SSARS No. 1 [sec. 100]?

**.62 Interpretation**—Except in those instances where the financial statements are not expected to be used by a third party, as permitted under paragraphs 24–27 of SSARS No. 1 [sec. 100 par. .24–.27], an accountant should not submit draft financial statements without intending to submit those financial statements in final form accompanied by an appropriate compilation or review report prescribed by SSARS No. 1 [sec. 100]. However, as long as the accountant intends to submit the financial statements in final form and labels each page of draft financial statements with words such as "Draft," "Preliminary Draft," "Draft—Subject to Changes," or "Working Draft," the accountant is not required

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<sup>[3]</sup> [Footnote deleted by the issuance of SSARS No. 7, November 1992.]

to comply with the reporting provisions of SSARS No. 1 [sec. 100] with respect to those draft financial statements. In the rare circumstance where the accountant intended to but never submitted final financial statements, the accountant may want to document the reasons why he or she was unable to submit those financial statements.

[Issue Date: September 1990; Revised: October 2000.]

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

**[.63–.72]** [Rescinded, September 2005, by the Accounting and Review Services Committee.]<sup>[4-9]</sup>

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

**.73 Question**—Rule 203, *Accounting Principles* (ET sec. 203 par. .01), of the AICPA Code of Professional Conduct states:

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

Paragraphs 56–58 of SSARS No. 1 [sec. 100 par. .56–.58] do not address the Rule 203 [ET sec. 203 par. .01] circumstances. When the circumstances contemplated by Rule 203 [ET sec. 203 par. .01] are present, how should the accountant report on the information described in the rule?

**.74 Interpretation**—When the circumstances contemplated by Rule 203 [ET sec. 203 par. .01] are present in a review engagement, the accountant's review report should include, in a separate paragraph or paragraphs, the information required by Rule 203 [ET sec. 203 par. .01]. In such a case, the accountant would not modify the standard review report, except for the addition of the separate paragraph(s) that contains the information required by Rule 203 [ET sec. 203 par. .01], unless there are other reasons to do so that are not associated with the departure from a promulgated principle.

**.75** Rule 203 [ET sec. 203.01] does not apply to engagements to report on a compilation. Accordingly, when the accountant is reporting on a compilation engagement and is confronted with the circumstances contemplated by Rule 203 [ET sec. 203.01], the guidance in paragraphs 56–58 of SSARS No. 1 [sec. 100.56–.58] pertaining to departures from GAAP should be followed.

[Issue Date: February 1991; Revised: October 2000;  
Revised: November 2002; Revised: May 2004; Revised: July 2005.]

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<sup>[4-9]</sup> [Footnotes deleted, September 2005.]

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

**.76 Question**—When are litigation services excluded from the applicability of SSARS?

**.77 Interpretation**—SSARS do not apply to financial statements submitted in conjunction with litigation services that involve pending or potential formal legal or regulatory proceedings before a "trier of fact"<sup>10</sup> in connection with the resolution of a dispute between two or more parties when the:

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

When performing such litigation services the accountant should comply with Rule 201 [ET sec. 201 par. .01].

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

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

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

[Issue Date: May 1991; Revised: October 2000; Revised: February 2008.]

## 21. Applicability of SSARS No. 1 When Performing Controllorship or Other Management Services

**.80 Question**—An accountant is in the practice of public accounting and provides an entity with controllorship or other management services that entail the submission of financial statements. Is the accountant required to follow the requirements of SSARS No. 1 [sec. 100]?

**.81 Interpretation**—If the accountant is in the practice of public accounting as defined by the AICPA's Code of Conduct (ET sec. 92 par. .25) and is not a stockholder, partner, director, officer, or employee of the entity, the accountant is required to follow the performance and communication requirements of SSARS No. 1 [sec. 100], including any requirement to disclose a lack of independence.<sup>11</sup>

**.82** If the accountant is in the practice of public accounting and is also a stockholder, partner, director, officer, or employee of the entity, the accountant may either (1) comply with the requirements of SSARS No. 1 [sec. 100], or (2)

<sup>10</sup> A "trier of fact" in this section means a court, regulatory body, or government authority; their agents; a grand jury; or an arbitrator or mediator of the dispute. [Footnote renumbered by the revision to Interpretation No. 18, January 2004.]

<sup>11</sup> If the compilation is not intended for third party use, SSARS No. 1 as amended by SSARS No. 8 [sec. 100] may be appropriate. [Footnote renumbered by the revision to Interpretation No. 18, January 2004.]

communicate, preferably in writing, the accountant's relationship to the entity (for example, stockholder, partner, director, officer, or employee).<sup>12</sup>

**.83** The following is an example of the type of communication that may be used by the accountant:

The accompanying balance sheet of Company X as of December 31, 20XX, and the related statements of income and cash flows for the year then ended have been prepared by [name of accountant], CPA. I have prepared such financial statements in my capacity [describe capacity, for example, as a director] of Company X.

**.84** If an accountant is not in the practice of public accounting, the issuance of a report under SSARS would be inappropriate; however, the previously mentioned communication may be used.

[Issue Date: July 2002.]

## **22. Use of "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included"**

**.85 Question**—Can an accountant label notes to the financial statements "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included" when the client includes more than a few required disclosures?

**.86 Interpretation**—No. As discussed in paragraph 19. of SSARS No. 1 [sec. 100 par. .19], when the entity wishes to include disclosures about only a few matters in the form of notes to the financial statements, such disclosures should be labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included."

**.87** When the financial statements include more than a few disclosures, this guidance is not appropriate. The omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation or review report like any other departure from GAAP, and the nature of the departure and its effects, if known, should be disclosed.

**.88** The label "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included" should not be used in situations where substantially all disclosures are included. The label "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included" is not intended to be used for the omission of (intentionally or unintentionally) one or more disclosures and the accountant should use his or her judgment in determining the appropriateness of the label.

[Issue Date: December 2002.]

## **23. Applicability of Statements on Standards for Accounting and Review Services When an Accountant Engaged to Perform a Business Valuation Derives Information From an Entity's Tax Return**

**.89 Question**—When an accountant is engaged to perform a business valuation of an entity, it may be necessary for the accountant to derive financial information to be used in that business valuation from the client's tax return.

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<sup>12</sup> The accountant should refer to Ruling No. 10, "Submission of Financial Statement by a Member in Public Practice," of ET section 291, *Ethics Rulings on General and Technical Standards* [ET sec. 291 par. .019-.020], for additional guidance. [Footnote renumbered by the revision to Interpretation No. 18, January 2004.]

This is particularly true if the entity does not have audited, reviewed, or compiled financial statements. If an accountant derives financial information from an entity's tax return, and such information is presented as part of the business valuation report, do SSARSs apply?

**.90 Interpretation**—No. As discussed in paragraph 4. of SSARS No. 1 [sec. 100 par. .04], under the definition of a financial statement, "Financial forecasts, projections and similar presentations, and financial presentations included in tax returns are not financial statements for purposes of this Statement." Therefore, even if the accountant has prepared the tax return, he or she has not prepared financial statements in accordance with SSARSs and the financial information derived from the tax return and presented as part of a business valuation is not deemed to be submission of financial statements as contemplated by SSARS No. 1 [sec. 100].

**.91** When an accountant, in the course of performing a business valuation engagement, derives financial information from the client's tax return, or another accountant's audited, reviewed, or compiled financial statements, or client-prepared financial statements, the accountant should refer to the source of the financial information and include an indication in the business valuation report that the accountant has not audited, reviewed, or compiled the financial information and that the accountant assumes no responsibility for the information. (See paragraph 3. of SSARS No. 1 [sec. 100 par. .03].) The following is an example of wording that may be included in the business valuation report which incorporates the requirements of paragraph 3. of SSARS No. 1 [sec. 100 par. .03]:

In preparing our business valuation report, we have relied upon historical financial information provided to us by management and derived from [*refer to the appropriate source of the information, such as tax return, audit report issued by another auditor, and so on*]. This financial information has not been audited, reviewed, or compiled by us and accordingly we do not express an opinion or any form of assurance on this financial information.

**.92** However, if the accountant submits financial statements in the course of performing a business valuation as defined in paragraph 4. of SSARS No. 1 [sec. 100 par. .04], then, at a minimum, the accountant should comply with the provisions of SSARSs applicable to a compilation engagement.

[Issue Date: August 2003.]

## **24. Reference to the Country of Origin in a Review or Compilation Report**

**.93 Question**—When issuing a compilation or review report, may the accountant reference the country of origin of the accounting principles used to prepare the financial statements?

**.94 Interpretation**—Yes. Although SSARSs do not require the reference to the country of origin, there is no prohibition to referencing the country of origin in either a compilation or review report.

Because a compilation report does not reference the accounting criteria, the accountant may include a reference to the country of origin in an emphasis of matter paragraph such as the following:

As disclosed in note X, the accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The accountant may modify the third paragraph of the standard review report to read as follows:

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

[Issue Date: September 2003; Revised: May 2008]

## 25. Omission of the Display of Comprehensive Income in a Compilation

**.95 Question**—When an element of comprehensive income is present, can the display of comprehensive income be omitted when issuing a compilation report with substantially all disclosures omitted?

**.96 Interpretation**—Yes. FASB ASC 220, *Comprehensive Income*, requires the display of comprehensive income when a full set of financial statements is presented in conformity with GAAP. However, the display of comprehensive income may be omitted by identifying the omission in the compilation report or engagement letter (SSARS No. 8, *Amendment to Statement on Standards for Accounting and Review Services No. 1*, Compilation and Review of Financial Statements [sec. 100]). The following is suggested modified wording (shown in *italic*) to the standard compilation report found in paragraph 21. of SSARS No. 1 [sec. 100 par. .21]:

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

**.97** In addition, if the accountant issues a compilation report on financial statements that omit substantially all disclosures and the display of comprehensive income but include the statement of cash flows, the following is suggested modified wording (shown in *italic*) to the compilation report found in paragraph 21. of SSARS No. 1 [sec. 100 par. .21]:

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

**.98** If the accountant compiles financial statements that include all disclosures but omit the display of comprehensive income, the omission should be treated as a departure from GAAP.

**.99** Additionally, if an element of comprehensive income has not been computed, for example, unrealized gains and losses arising from investments in marketable securities classified as "available for sale" then the accountant should consider a departure from GAAP and follow the guidance in paragraphs 56.–58. of SSARS No. 1 [sec. 100 par. .56–.58].

[Issue Date: September 2003; Revised: May 2004; Revised: July 2005; Revised: June 2009.]

## [26.] Communicating Possible Fraud and Illegal Acts to Management and Others

[.100–.103]<sup>[13-14]</sup> [Rescinded, July 2005, by SSARS No. 12.]

[13-14] [Footnotes deleted by the issuance of SSARS No. 12, July 2005.]

## 27. Applicability of Statements on Standards for Accounting and Review Services to Reviews of Nonissuers Who Are Owned by or Controlled by an Issuer

**.104 Question**—A subsidiary of an issuer<sup>15</sup> has requested that its financial statements be reviewed for the purpose of providing those subsidiary financial statements and the accountant's review report to a local bank as a condition of a new borrowing arrangement. Because the entity is a subsidiary of a public company, its auditors have applied auditing and review procedures in accordance with the professional standards of the Public Company Accounting Oversight Board (PCAOB) at the subsidiary level.

What authoritative standards should an accountant follow when engaged to review the separate financial statements of a subsidiary, which itself is not an issuer?

**.105 Interpretation**—SSARS No. 1 [sec. 100 par. .04] defines an issuer as:

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).

**.106** The condition set forth in (c) is intended to be read in the context of when the review of the subsidiary, corporate joint venture, or other entity is being performed for the purpose of the controlling entity (the issuer) meeting its reporting obligations as a result of conditions (a) or (b).

**.107** For example, if a subsidiary is being reviewed at an interim period as part of an entity's filing of its consolidated interim financial statements with the SEC, then the review should be performed in accordance with PCAOB standards and SSARSs are not applicable because the review is in the context of the issuer meeting its reporting obligations as a result of conditions (a) or (b).

**.108** However, in the situation where an accountant is engaged to review the financial statements of a subsidiary, corporate joint venture, or other entity that is not itself an issuer and the review report and reviewed financial statements are not being filed with the SEC, or another regulatory agency that requires the accountant to prepare the review report in accordance with PCAOB standards, the accountant should perform the review in accordance with SSARSs since the review engagement is not being performed in the context of the issuer meeting its reporting obligations as a result of conditions (a) or (b).

[Issue Date: August 2005.]

## 28. Special-Purpose Financial Statements to Comply With Contractual Agreements or Regulatory Provisions

**.109 Question**—An accountant may be asked to compile or review special-purpose financial statements prepared to comply with a contractual agreement or regulatory provision that specifies a special basis of presentation. In most

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<sup>15</sup> An "issuer" as defined in Section 2 of The Sarbanes-Oxley Act of 2002 means "an issuer (as defined in Section 3 of the Securities and Exchange Act of 1934), the securities of which are registered under Section 12 of that act, or that is required to file reports under Section 15(d), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933, and that it has not withdrawn."



circumstances, these financial statements are intended solely for the use of the parties to the agreement, regulatory bodies, or other specified parties. How should the accountant modify the standard compilation or review report when reporting on these special-purpose financial statements?

**.110 Interpretation**—An accountant who is asked to compile or review special-purpose financial statements prepared to comply with a contractual agreement<sup>16</sup> or a regulatory provision that specifies a special basis of presentation<sup>17</sup> may issue a compilation or review report on those financial statements in accordance with SSARS 1, as amended [sec. 100] as described in this interpretation. This interpretation describes reporting on:

- a. Special-purpose financial statements prepared in compliance with a contractual agreement or regulatory provision that does not constitute a complete presentation of the entity's assets, liabilities, revenues and expenses, but is otherwise prepared in conformity with GAAP or an other comprehensive basis of accounting.

or

- b. A special-purpose financial presentation (may be a complete set of financial statements or a single financial statement) prepared on a basis of accounting prescribed in an agreement that does not result in a presentation in conformity with GAAP or an other comprehensive basis of accounting.

***Financial Statements Prepared on a Basis of Accounting Prescribed in a Contractual Agreement or Regulatory Provision That Results in an Incomplete Presentation but One That Is Otherwise in Conformity With GAAP or an Other Comprehensive Basis of Accounting***

**.111** An entity may engage an accountant to compile or review a special-purpose financial statement prepared in compliance with a contractual agreement or regulatory provision that does not constitute a complete presentation of the entity's assets, liabilities, revenues, or expenses, but is otherwise prepared in conformity with GAAP or Other Comprehensive Basis of Accounting (OCBOA). For example, a governmental agency may require a statement of gross income and certain expenses of an entity's real estate operation in which income and expenses are measured in conformity with GAAP, but expenses are defined to exclude certain items such as interest, depreciation, and income taxes. Such a statement may also present the excess of gross income over defined expenses. Also, a buy-sell agreement may specify a statement of gross assets and liabilities of the entity measured in conformity with GAAP, but limited to the assets to be sold and liabilities to be transferred pursuant to the agreement.

**.112** When the accountant submits compiled or reviewed special-purpose financial statements prepared on a basis of accounting prescribed in a contractual agreement or regulatory provision that results in an incomplete presentation but one that is otherwise prepared in conformity with GAAP or OCBOA,

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<sup>16</sup> A contractual agreement as discussed in this interpretation is an agreement between the client and one or more third parties other than the accountant.

<sup>17</sup> When the contractual agreement or regulatory provision specifies the use of a prescribed form for which the accountant has been engaged to compile the financial statements identified therein, the accountant should reference SSARS 3, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms* [sec. 300], for an alternative form of standard compilation report when the prescribed form calls for a departure from GAAP or an other comprehensive basis of accounting.

the accountant's report should be modified to include an explanatory paragraph with the following information:

- An explanation of what the financial statement is intended to present and a reference to the note to the special-purpose financial statement that describes the basis of presentation.
- If the basis of presentation is in conformity with GAAP or OCBOA, a statement that the presentation is not intended to be a complete presentation of the entity's assets, liabilities, revenues, and expenses.
- A separate paragraph at the end of the report stating that the report is intended solely for the information and use of those within the entity, the parties to the contract or agreement, the regulatory agency with which the report is being filed, or those with whom the entity is negotiating directly, and is not intended to be and should not be used by anyone other than these specified parties.

**.113** The following is an illustrative example of a compilation report on special-purpose financial statements:

I (we) have compiled the accompanying statement of net assets sold of XYZ Company as of December 31, 20X1, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

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

This report is intended solely for the information and use of [*the specified parties*]<sup>18</sup> and is not intended to be and should not be used by anyone other than these specified parties.

**.114** The following is an illustrative example of a review report on special-purpose financial statements:

I (we) have reviewed the accompanying statement of gross income and direct operating expenses of XYZ Company for the year ended December 31, 20X1, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in this statement is the representation of management (owners) of XYZ Company.

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

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<sup>18</sup> The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.

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

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

This report is intended solely for the information and use of [the specified parties]<sup>19</sup> and is not intended to be and should not be used by anyone other than these specified parties.

***Financial Statements Prepared on a Basis of Accounting Prescribed in an Agreement That Results in a Presentation That Is Not in Conformity With GAAP or an OCBOA***

.115 An entity may engage an accountant to compile or review a special-purpose financial statement prepared in conformity with a basis of accounting that departs from GAAP or an OCBOA. A loan agreement, for example, may require the borrower to prepare consolidated financial statements in which assets, such as inventory, are presented on a basis that is not in conformity with GAAP or an OCBOA. Also, an acquisition agreement may require the financial statements of the entity being acquired (or a segment of it) to be prepared in conformity with GAAP except for certain assets, such as receivables, inventories, and properties for which a valuation basis is specified in the agreement.

.116 Financial statements prepared under a basis of accounting as discussed in the preceding are not considered to be prepared in conformity with an OCBOA because the criteria used to prepare such financial statements do not meet the requirement of being "criteria having substantial support," even though the criteria are definite.

.117 When the accountant submits compiled or reviewed special-purpose financial statements prepared on a basis of accounting prescribed in an agreement that results in a presentation that is not in conformity with GAAP or OCBOA, the accountant's report should be modified to include an explanatory paragraph with the following information:

- An explanation of what the presentation is intended to present and a reference to the note to the special-purpose financial statements that describes the basis of presentation.
- A statement that the financial statement is not intended to be a presentation in conformity with GAAP or an OCBOA.
- A description and the source of significant interpretations, if any, made by the Company's management relating to the provisions of a relevant agreement.
- A separate paragraph at the end of the report stating that the report is intended solely for the information and use of those within the entity, the parties to the contract or agreement, the regulatory agency with which the report is being filed, or those with whom the entity is negotiating directly, and is not intended to be and should not be used by

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<sup>19</sup> The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.

anyone other than these specified parties. For example, if the financial statements have been prepared for the specified purpose of obtaining bank financing, the report's use should be restricted to the various banks with whom the entity is negotiating the proposed financing.

**.118** The following is an illustrative example of a compilation report on special-purpose financial statements:

I (we) have compiled the special-purpose statement of assets and liabilities of XYZ Company as of December 31, 20X1, and the related special-purpose statements of revenue and expenses and of cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

The accompanying special-purpose financial statements were prepared for the purpose of complying with the acquisition agreement between ABC Company and XYZ Company as discussed in Note A, and are not intended to be a presentation in conformity with GAAP.

This report is intended solely for the information and use of [*the specified parties*]<sup>20</sup> and is not intended to be and should not be used by anyone other than these specified parties.

**.119** The following is an illustrative example of a review report on special-purpose financial statements:

I (we) have reviewed the accompanying special-purpose statement of assets and liabilities of XYZ Company as of December 31, 20X1 and the related special-purpose statements of revenue and expenses and of 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 management (owners) of XYZ Company.

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

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

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

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<sup>20</sup> The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.

This report is intended solely for the information and use of the [specified parties]<sup>21</sup> and should not be used by anyone other than these specified parties.

[Issue Date: December 2006.]

## **29. Reporting on an Uncertainty, Including an Uncertainty About an Entity's Ability to Continue as a Going Concern**

**.120 Question**—How should an accountant modify the standard compilation or review report when, during the performance of compilation or review procedures, evidence or information comes to the accountant's attention that there may be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being compiled or reviewed?

**.121 Interpretation**—As stated in footnote 30 in paragraph .57 of section 100, "Normally, neither an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, nor an inconsistency in the application of accounting principles would cause the accountant to modify the standard report provided the financial statements appropriately disclose such matters." Disclosure requirements with respect to uncertainties are included in FASB ASC 275, *Risks and Uncertainties*, FASB ASC 450, *Contingencies*, and other authoritative accounting literature. However, the accounting literature does not provide specific guidance on disclosure of uncertainties caused by concern about an entity's ability to continue as a going concern.

**.122** Continuation of an entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. The accountant should follow the guidance in paragraphs .69–.72 of section 100 with respect to his or her consideration of the entity's ability to continue as a going concern during the performance of compilation or review procedures.

**.123** If the accountant concludes that management's disclosure of the uncertainty regarding the entity's ability to continue as a going concern is adequate but further decides to include an emphasis of a matter paragraph with respect to the uncertainty in the accountant's compilation or review report, he or she may use the following language:

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

**.124 Question**—If the accountant, while performing a compilation or review, becomes aware of a material uncertainty other than a going concern uncertainty (for example, an uncertainty regarding pending or threatened litigation), what should the accountant consider in deciding whether a report modification is necessary?

**.125 Interpretation**—As stated in footnote 30 in paragraph .57 of section 100, "Normally, neither an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, nor an inconsistency in the application of accounting principles would cause the accountant to modify the standard report provided the financial statements appropriately disclose such matters." Disclosure requirements with respect to uncertainties are included in FASB ASC 275, 450, and other authoritative accounting literature.

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<sup>21</sup> The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.

**.126** If the accountant determines that the disclosure of the uncertainty is not in accordance with GAAP, he or she should follow the guidance in paragraphs .46–.48 of section 100.

**.127** If the accountant concludes that management's disclosure of the uncertainty is in accordance with GAAP but further decides to include an emphasis of a matter paragraph with respect to the uncertainty in the accountant's compilation or review report, he or she may use the following language:

As discussed in Note X, the Company is currently named in a legal action. The Company has determined that it is not possible to predict the eventual outcome of the legal action but has determined that the resolution of the action will not result in an adverse judgment that would materially affect the financial statements. Accordingly, the accompanying financial statements do not include any adjustments related to the legal action under FASB ASC 450.

**.128 Question**—Paragraph .19 of section 100 allows the accountant, when he or she is requested to do so, to compile financial statements that omit substantially all of the disclosures required by GAAP, provided the report clearly indicates the omission and the client's decision to omit the disclosures was not, to the accountant's knowledge, undertaken with the intention of misleading users of the statements. Should disclosure of an uncertainty be considered so significant that it also could never be omitted?

**.129 Interpretation**—No. The user is adequately warned of the limitations of the financial statements by the report language suggested in paragraph .22 of section 100.

[Issue date: February 2007; Revised: February 2008; Amended: December 2008; Revised: June 2009]

### **30. Considerations Related to Financial Statements Prepared in Accordance With International Financial Reporting Standards and Compilations and Reviews Performed in Accordance With International Standards**

**.130 Question**—Section 100 provides guidance regarding accountant's reports issued in connection with compilations and reviews of historical financial statements prepared in accordance with either GAAP or an other comprehensive basis of accounting. May an accountant apply the reporting guidance in section 100 when engaged to report on financial statements presented in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB)?

**.131 Interpretation**—Yes. The IASB has been designated by the Council of the AICPA as the body to establish international financial reporting standards for both private and public entities pursuant to Rule 202, *Compliance With Standards*, and Rule 203, *Accounting Principles*, of the AICPA Code of Professional Conduct (ET sec. 202 par. .01 and ET sec. 203 par. .01) as of May 18, 2008. Accordingly, an accountant may apply the reporting guidance in section 100 when reporting on financial statements presented in accordance with IFRS as issued by the IASB.

When the accountant compiles financial statements prepared in accordance with IFRS as issued by the IASB, the accountant may wish to add an emphasis of matter paragraph such as the following:

As disclosed in note X, the accompanying financial statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

When the accountant compiles financial statements that omit substantially all disclosures but are otherwise in conformity with IFRS as issued by the IASB, the accountant may wish to modify the third paragraph of the standard report as follows:

Management has elected to omit substantially all disclosures (and the statement of cash flows) required by International Financial Reporting Standards as issued by the International Accounting Standards Board. If the omitted disclosures and statement were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

When the accountant reviews financial statements prepared in accordance with IFRS as issued by the IASB, an example of the third paragraph of the accountant's review report follows:

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**.132** An entity may prepare financial statements in conformity with a jurisdictional variation of IFRS such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with IFRS as issued by the IASB. Because the council of the AICPA has not designated bodies other than the IASB to establish IFRS, paragraphs .56–.58 of section 100 apply.

**.133** If financial statements are presented in conformity with both IFRS as issued by the IASB and a jurisdictional variation of IFRS (for example, financial statements prepared in conformity with IFRS as issued by the IASB and with IFRS as endorsed by the European Union), an accountant may follow the guidance as described previously.

**.134** *Question*—May a U.S. accountant perform a compilation or review of historical financial statements of a U.S. entity<sup>22</sup> in accordance with International Standard on Related Service (ISRS) 4410, *Engagements to Compile Financial Statements*, or International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*, respectively? The financial statements may have been prepared in accordance with IFRS or accounting principles generally accepted in the United States of America.

**.135** *Interpretation*—Yes. An accountant performing a compilation or review of historical financial statements of a U.S. entity is required to follow the compilation and review standards as promulgated by the AICPA's Accounting and Review Services Committee. However, those standards do not prohibit an accountant from indicating that the compilation or review also was conducted in accordance with another set of compilation or review standards. In an engagement to compile the historical financial statements in accordance with ISRS 4410, the accountant may perform the compilation in accordance with section 100 as well as ISRS 4410. Such a compilation report may read as follows:

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20X1, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards

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<sup>22</sup> A U.S. entity is an entity that is either organized or domiciled in the United States of America.

for Accounting and Review Services issued by the American Institute of Certified Public Accountants and in accordance with the International Standard on Related Services applicable to compilation engagements.

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.

In an engagement to review the historical financial statements in accordance with ISRE 2400, the accountant may perform the review in accordance with section 100 as well as ISRE 2400. Such a review report may read as follows:

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20X1, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants and in accordance with International Standard on Review Engagement 2400. All information included in these financial statements is the representation of management (owners) of XYZ Company.

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

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America (or International Financial Reporting Standards as issued by the International Accounting Standards Board).

[Issue Date: May 2008.]

## 31. Preparation of Financial Statements for Use by an Entity's Auditors

**.136 Question**—Paragraph .24 of section 100 states in part:

"When an accountant submits unaudited financial statements to his or her client that are not expected to be used by a third party, he or she should either

- issue a compilation report in accordance with the reporting requirements discussed in paragraphs .11–.21 or
- document an understanding with the entity through the use of an engagement letter, preferably signed by management, regarding the services to be performed and the limitations on the use of those financial statements."

In the situation where a client engages an accountant, other than its auditor, to prepare unaudited financial statements on behalf of management and where those financial statements are provided by management to its outside auditor for the purposes of the annual audit, is the client's outside auditor deemed to be a third party using the financial statements?

**.137 Interpretation**—No. Although the client's outside auditor is a third party, the auditor is not deemed to be using the financial statements. The



auditor's role is to apply auditing procedures to those statements in order to obtain sufficient appropriate audit evidence to support his or her opinion on those statements. Accordingly, the requirements in section 100 paragraphs .24-.27 are applicable.

[Issue Date: December 2008.]

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## AR Section 110

### ***Compilation of Specified Elements, Accounts, or Items of a Financial Statement***

**Issue date, unless otherwise indicated: July, 2005**

**Source: SSARS No. 13, SSARS No. 17**

**.01** Statements on Standards for Accounting and Review Services (SSARS) currently provide guidance concerning the standards and procedures applicable when an accountant submits unaudited financial statements to his or her client or third parties. By definition, presentations of specified elements, accounts, or items of a financial statement are not financial statements. This Statement expands SSARS to apply when an accountant is engaged to compile or issues a compilation report on one or more specified elements, accounts, or items of a financial statement.

**.02** A compilation of one or more specified elements, accounts, or items of a financial statement is limited to presenting financial information that is the representation of management (owners) without undertaking to express any assurance on that information. (The accountant might consider it necessary to perform other accounting services to compile the financial information.)

**.03** Examples of specified elements, accounts, or items of a financial statement that an accountant may compile include schedules of rentals, royalties, profit participation, or provision for income taxes.

### **Conditions for Compiling Specified Elements, Accounts, or Items of a Financial Statement**

**.04** Nothing in this Statement is intended to preclude an accountant from preparing or assisting in the preparation of one or more specified elements, accounts, or items of a financial statement and submitting such specified elements, accounts, or items of a financial statement to the client without the issuance of a compilation report, unless the accountant has been engaged to compile such specified elements, accounts, or items of a financial statement. If an accountant prepares or assists a client in preparing a schedule of one or more specified elements, accounts, or items of a financial statement,<sup>1</sup> the accountant should consider how such a presentation of specified elements, accounts, or items will be used. The accountant should consider the potential of being associated with the schedule and the likelihood that the user may inappropriately infer, through that association, an unintended level of assurance. If the accountant believes that he or she will be associated with the information, the accountant should consider issuing a compilation report so a user will not infer a level of assurance that does not exist.

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<sup>1</sup> If the specified element, account, or item of a financial statement is included as accompanying information to the basic financial statements, the accountant should refer to Statement on Standards for Accounting and Review Services (SSARS) No. 1, *Compilation and Review of Financial Statements* [section 100.70], as amended.

**.05** An engagement to compile one or more specified elements, accounts, or items of a financial statement may be undertaken as a separate engagement or in conjunction with a compilation of financial statements.

## Understanding With the Entity

**.06** When an accountant is engaged to compile one or more specified elements, accounts, or items of a financial statement, the accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed. The understanding should include a description of the nature and limitations of the services to be performed and a description of the report. The understanding should also provide:

- a. That the engagement cannot be relied upon to disclose errors, fraud,<sup>2</sup> or illegal acts,<sup>3</sup> and
- b. That the accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the engagement to compile one or more specified elements, accounts, or items of a financial statement<sup>4</sup> that fraud or an illegal act may have occurred.<sup>5</sup> The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.

**.07** When the accountant is engaged to compile one or more specified elements, accounts, or items of a financial statement and evidence or information comes to his or her attention during the engagement that fraud or an illegal act may have occurred, the accountant must adhere to the communication requirements contained in SSARS No. 1, *Compilation and Review of Financial Statements* [section 100.84–.85], as amended.

## Performance Requirements

**.08** When the accountant is engaged to compile or issues a compilation report on one or more specified elements, accounts, or items of a financial statement, he or she must adhere to the compilation performance requirements contained in SSARS No. 1 [section 100.08–.11], as amended.

**.09** Before issuance of a compilation report on one or more specified elements, accounts, or items of a financial statement, the accountant should read such compiled specified elements, accounts, or items of a financial statement and consider whether the information appears to be appropriate in form and

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<sup>2</sup> For purposes of this Statement, *fraud* is an intentional act that results in a misstatement in compiled specified elements, accounts, or items of a financial statement.

<sup>3</sup> For purposes of this Statement, illegal acts are violations of laws or government regulations, excluding fraud.

<sup>4</sup> Performance requirements with respect to an engagement to compile one or more specified elements, accounts, or items of a financial statement are contained in paragraphs .08 and .09.

<sup>5</sup> Whether the act is, in fact, fraudulent or illegal is a determination that is normally beyond the accountant's professional competence. An accountant, in reporting on one or more specified elements, accounts, or items of a financial statement, presents himself or herself as one who is proficient in accounting and compilation services. The accountant's training, experience, and understanding of the client and its industry may provide a basis for recognition that some client acts coming to his or her attention may be fraudulent or illegal. However, the determination as to whether a particular act is fraudulent or illegal would generally be based on the advice of an informed expert qualified to practice law or may have to await final determination by a court of law.

free of obvious material errors. In this context, the term *error* refers to mistakes in the compilation of the specified elements, accounts, or items of a financial statement, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including disclosures, if presented.

## Reporting Requirements

**.10** When the accountant is engaged to compile or issues a compilation report on one or more specified elements, accounts, or items of a financial statement, the basic elements of the report are as follows:

- a. A statement that the specified element(s), account(s), or item(s) identified in the report were compiled. If the compilation was performed in conjunction with a compilation of the company's financial statements, the paragraph should so state and indicate the date of the accountant's compilation report on those financial statements. Furthermore, any departure from the standard report on those statements should also be disclosed if considered relevant to the presentation of the specified element(s), account(s), or item(s).
- b. A statement that the compilation was performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.
- c. A description of the basis on which the specified element(s), account(s), or item(s) are presented if that basis is not generally accepted accounting principles and a statement that that basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles.
- d. A statement that a compilation is limited to presenting financial information that is the representation of management (owners).
- e. A statement that the specified element(s), account(s), or item(s) have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on it (them).
- f. A signature of the accounting firm or the accountant as appropriate. (The signature could be manual, stamped, electronic, or typed.)
- g. The date of the compilation report. (The date of completion of the compilation should be used as the date of the accountant's report.)

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

**.11** Each page of the compiled specified elements, accounts, or items of a financial statement should include a reference, such as "See Accountant's Compilation Report."

**.12** Following are illustrations of accountant's compilation reports on specified elements, accounts, or items of a financial statement.

### Report Related to Accounts Receivable

I (we) have compiled the accompanying schedule of accounts receivable of XYZ Company as of December 31, 20XX, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

**Report Related to the Schedule of Depreciation—Income Tax Basis**

I (we) have compiled the accompanying schedule of depreciation—income tax basis of XYZ Company as of December 31, 20XX, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The schedule of depreciation—income tax basis has been prepared on the accounting basis used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting financial information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying schedule of depreciation—income tax basis and, accordingly, do not express an opinion or any other form of assurance on it.

**.13** An accountant is not precluded from issuing a compilation report on one or more specified elements, accounts, or items of a financial statement for an entity with respect to which the accountant is not independent.<sup>6</sup> If the accountant is not independent, he or she should specifically disclose the lack of independence. However, the reason for the lack of independence should not be described. When the accountant is not independent, the following should be included as the last paragraph of the report:

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

**.14** This Statement is effective for engagements entered into after December 15, 2005. Early application is permitted.

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<sup>6</sup> In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA *Code of Professional Conduct*.

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## Appendix

### Compilation of Specified Elements, Accounts, or Items of a Financial Statement—Illustrative Engagement Letter

[*Appropriate Salutation*]

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

We will perform the following services:

We will compile, from information you provide, [*identify specified element, account, or item of the financial statement, e.g. schedule of accounts receivable or schedule of depreciation – income tax basis*] of XYZ Company as of December 31, 20XX.

We will compile the [*identify specified element, account, or item of the financial statement*] and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to present financial information that is the representation of management (owners) without undertaking to express any assurance on the information.

A compilation differs significantly from a review or an audit of financial information. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for expressing any level of assurance on the financial information being compiled.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our compilation procedures, that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

As part of our engagement, we will also [*list any nonattest services to be performed, if applicable, such as income tax preparation and bookkeeping services*].

You are responsible for:

- a. Making all management decisions and performing all management functions;
- b. Designating an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- c. Evaluating the adequacy and results of the services performed;

- d. Accepting responsibility for the results of the services; and
- e. Establishing and maintaining internal controls, including monitoring ongoing activities.

If, for any reason, we are unable to complete the compilation of your [*identify specified element, account, or item of the financial statement*], we will not issue a report on such schedule as a result of this engagement.

Our fees for these services . . . .

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

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

Sincerely yours,

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[*Signature of accountant*]

Acknowledged:

XYZ Company

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President

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Date

[As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

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



## AR Section 120

# *Compilation of Pro Forma Financial Information*

**Issue date, unless otherwise indicated: July, 2005**

**Source: SSARS No. 14, SSARS No. 17**

**.01** Statements on Standards for Accounting and Review Services (SSARS) currently provide guidance concerning the standards and procedures applicable when an accountant submits unaudited financial statements to his or her client or third parties. By definition, presentations of pro forma financial information are not financial statements. This Statement expands SSARS to apply when an accountant is engaged to compile or issues a compilation report on pro forma financial information.

**.02** A compilation of pro forma financial information is limited to presenting financial information that is the representation of management (owners) without undertaking to express any assurance on that information. (The accountant might consider it necessary to perform other accounting services to compile the financial information.)

**.03** The objective of pro forma financial information is to show what the significant effects on historical financial information might have been had a consummated or proposed transaction (or event) occurred at an earlier date. Pro forma financial information is commonly used to show the effects of transactions such as the following:

- Business combination
- Change in capitalization
- Disposition of a significant portion of the business
- Change in the form of business organization or status as an autonomous entity
- Proposed sale of securities and the application of the proceeds

**.04** This objective is achieved primarily by applying pro forma adjustments to historical financial information. Pro forma adjustments should be based on management's assumptions and give effect to all significant effects directly attributable to the transaction (or event).

**.05** Pro forma financial information should be labeled as such to distinguish it from historical financial information. This presentation should describe the transaction (or event) that is reflected in the pro forma financial information, the source of the historical financial information on which it is based, the significant assumptions used in developing the pro forma adjustments, and any significant uncertainties about those assumptions. The presentation should also indicate that the pro forma financial information should be read in conjunction with the related historical financial information and that the pro forma financial information is not necessarily indicative of the results (such as financial position and results of operations, as applicable) that would have been attained had the transaction (or event) actually taken place earlier.

## Conditions for Compiling Pro Forma Financial Information

**.06** Nothing in this Statement is intended to preclude an accountant from preparing or assisting in the preparation of pro forma financial information and submitting such pro forma financial information to the client without the issuance of a compilation report, unless the accountant has been engaged to compile such pro forma financial information. If an accountant prepares or assists a client in preparing pro forma financial information,<sup>1</sup> the accountant should consider how such a presentation of pro forma financial information will be used. The accountant should consider the potential of being associated with pro forma financial information and the likelihood that the user may inappropriately infer, through that association, an unintended level of assurance. If the accountant believes that he or she will be associated with the information, the accountant should consider issuing a compilation report so a user will not infer a level of assurance that does not exist.

**.07** An engagement to compile pro forma financial information may be undertaken as a separate engagement or in conjunction with a compilation of financial statements. The accountant may agree to compile pro forma financial information if the document that contains the pro forma financial information includes (or incorporates by reference) complete historical financial statements of the entity for the most recent year (or for the preceding year if financial statements for the most recent year are not yet available) and, if pro forma financial information is presented for an interim period, the document also includes (or incorporates by reference) historical interim financial information for that period (which may be presented in condensed form). In the case of a business combination, the document should include (or incorporate by reference) the appropriate historical financial information for the significant constituent parts of the combined entity.

**.08** Additionally, the historical financial statements of the entity (or, in the case of a business combination, of each significant constituent part of the combined entity) on which the pro forma financial information is based must have been compiled, reviewed, or audited. The accountant's compilation or review report or the auditor's report on the historical financial statements should be included (or incorporated by reference) in the document containing the pro forma financial information.

## Understanding With the Entity

**.09** When an accountant is engaged to compile pro forma financial information, the accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed. The understanding should include a description of the nature and limitations of the services to be performed and a description of the report. The understanding should also provide:

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<sup>1</sup> If the pro forma financial information is included as accompanying information to the basic financial statements, the accountant should refer to Statement on Standards for Accounting and Review Services (SSARS) No. 1, *Compilation and Review of Financial Statements* [section 100.83], as amended.

- a. That the engagement cannot be relied upon to disclose errors, fraud,<sup>2</sup> or illegal acts<sup>3</sup> and
- b. That the accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the engagement to compile pro forma financial information<sup>4</sup> that fraud or an illegal act may have occurred.<sup>5</sup> The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.

.10 When the accountant is engaged to compile pro forma financial information and evidence or information comes to his or her attention during the engagement that fraud or an illegal act may have occurred, the accountant must adhere to the communication requirements contained in SSARS No. 1, *Compilation and Review of Financial Statements* [section 100.84–.85], as amended.

## Performance Requirements

.11 When the accountant is engaged to compile or issues a compilation report on pro forma financial information, he or she must adhere to the compilation performance requirements contained in SSARS No. 1 [section 100.08–.11], as amended.

.12 Before issuance of a compilation report on pro forma financial information, the accountant should read such compiled pro forma financial information, including the summary of significant assumptions,<sup>6</sup> and consider whether the information appears to be appropriate in form and free of obvious material errors. In this context, the term *error* refers to mistakes in the compilation of the pro forma financial information, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including disclosures, if presented.

## Reporting Requirements

.13 When the accountant is engaged to compile or issues a compilation report on pro forma financial information, the basic elements of the report are as follows:

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<sup>2</sup> For purposes of this Statement, *fraud* is an intentional act that results in a misstatement in compiled pro forma financial information.

<sup>3</sup> For purposes of this Statement, *illegal* acts are violations of laws or government regulations, excluding fraud.

<sup>4</sup> Performance requirements with respect to an engagement to compile pro forma financial information are contained in paragraphs .11 and .12.

<sup>5</sup> Whether the act is, in fact, fraudulent or illegal is a determination that is normally beyond the accountant's professional competence. An accountant, in reporting on pro forma financial information, presents himself or herself as one who is proficient in accounting and compilation services. The accountant's training, experience, and understanding of the client and its industry may provide a basis for recognition that some client acts coming to his or her attention may be fraudulent or illegal. However, the determination as to whether a particular act is fraudulent or illegal would generally be based on the advice of an informed expert qualified to practice law or may have to await final determination by a court of law.

<sup>6</sup> The accountant may not report on compiled pro forma financial information if the summary of significant assumptions is not presented. Nothing in this Statement should be interpreted to preclude the accountant from reporting on compiled pro forma financial information when management elects to omit substantially all disclosures. In that situation, the accountant should follow the guidance in SSARS No. 1 [section 100.19–.21], as amended.

- a. An identification of the pro forma financial information.
- b. A statement that the compilation was performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.
- c. A reference to the financial statements from which the historical financial information is derived and a statement on whether such financial statements were compiled, reviewed, or audited. (The report on pro forma financial information should refer to any modifications in the accountant's or auditor's report on historical financial statements.)
- d. A statement that the pro forma financial information was compiled. If the compilation was performed in conjunction with a compilation of the company's financial statements, the paragraph should so state and indicate the date of the accountant's compilation report on those financial statements. Furthermore, any departure from the standard report on those statements should also be disclosed if considered relevant to the presentation of the pro forma financial information.
- e. A description of the basis on which the pro forma financial information is presented if that basis is not generally accepted accounting principles and a statement that that basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles.
- f. A statement that a compilation is limited to presenting pro forma financial information that is the representation of management (owners).
- g. A statement that the pro forma financial information has not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on it.
- h. A separate paragraph explaining the objective of pro forma financial information and its limitations.
- i. A signature of the accounting firm or the accountant as appropriate. (The signature could be manual, stamped, electronic, or typed.)
- j. The date of the compilation report. (The date of completion of the compilation should be used as the date of the accountant's report.)

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

**.14** Each page of the compiled pro forma financial information should include a reference, such as "See Accountant's Compilation Report."

**.15** The following is an illustration of an accountant's compilation report on pro forma financial information.

I (we) have compiled the accompanying pro forma financial information as of and for the year ended December 31, 20XX, reflecting the business combination of the Company and ABC Company in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The historical condensed financial statements are derived from the historical unaudited financial statements of XYZ Company,

which were compiled by me (us), and of ABC Company, which were compiled by another (other) accountant(s).<sup>7</sup>

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

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the transaction (or event) occurred at an earlier date. However, the pro forma financial information is not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction (or event) actually occurred earlier.

*[If the presentation does not include all applicable disclosures, the following paragraph should be added.]*<sup>8</sup>

Management has elected to omit all of the disclosures ordinarily included in pro forma financial information. The omitted disclosures might have added significant information regarding the company's pro forma financial position and results of operations. Accordingly, this pro forma financial information is not designed for those who are not informed about such matters.

**.16** An accountant is not precluded from issuing a compilation report on pro forma financial information for an entity with respect to which the accountant is not independent.<sup>9</sup> If the accountant is not independent, he or she should specifically disclose the lack of independence. However, the reason for the lack of independence should not be described. When the accountant is not independent, the following should be included as the last paragraph of the report:

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

**.17** This Statement is effective for engagements entered into after December 15, 2005. Early application is permitted.

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<sup>7</sup> Where one set of historical financial statements is audited or reviewed and the other is audited, reviewed, or compiled, wording similar to the following would be appropriate:

The historical condensed financial statements are derived from the historical financial statements of XYZ Company, which were compiled by me (us), and of ABC Company, which were reviewed by another (other) accountant(s), appearing elsewhere herein (or incorporated by reference).

If either accountant's review report or auditor's report includes an explanatory paragraph or is modified, that fact should be referred to within this report.

<sup>8</sup> The accountant may not report on compiled pro forma financial information if the summary of significant assumptions is not presented.

<sup>9</sup> In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA Code of Professional Conduct.

## Appendix

### Compilation of Pro Forma Financial Information—Illustrative Engagement Letter

*[Appropriate Salutation]*

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

We will perform the following services:

We will compile, from information you provide, the pro forma financial information of XYZ Company as of December 31, 20XX.

We will compile the pro forma financial information and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to present financial information that is the representation of management (owners) without undertaking to express any assurance on the information.

A compilation differs significantly from a review or an audit of financial information. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for expressing any level of assurance on the financial information being compiled.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our compilation procedures, that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

As part of our engagement, we will also *[list any nonattest services to be performed, if applicable, such as income tax preparation and bookkeeping services]*.

You are responsible for:

- a. Making all management decisions and performing all management functions;
- b. Designating an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- c. Evaluating the adequacy and results of the services performed;
- d. Accepting responsibility for the results of the services; and
- e. Establishing and maintaining internal controls, including monitoring ongoing activities.

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

Our fees for these services . . . .

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

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

Sincerely yours,

\_\_\_\_\_  
[Signature of accountant]

Acknowledged:

XYZ Company

\_\_\_\_\_  
President

\_\_\_\_\_  
Date

[As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

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





**AR Section 200*****Reporting on Comparative Financial Statements***

Issue date, unless  
otherwise indicated:  
October, 1979

Source: SSARS No. 2;  
SSARS No. 3; SSARS No. 4;  
SSARS No. 5; SSARS No. 7;  
SSARS No. 11; SSARS No. 12;  
SSARS No. 15; SSARS No. 17

**.01** This Section establishes standards for reporting on comparative financial statements<sup>1</sup> of a nonissuer when financial statements of one or more periods presented have been compiled and reported on or reviewed in accordance with SSARS No. 1 [AR section 100].<sup>2</sup> [Revised, October 2000, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 8. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

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

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

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<sup>1</sup> This Section supersedes Statement on Standards for Accounting and Review Services No. 1, as amended, paragraph 79 [section 100[.92]]. [Footnote revised, May 2004, to reflect the conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 10.]

<sup>2</sup> The terms *nonissuer*, *financial statements*, *compilation*, and *review* are defined in paragraph 4 of AR section 100. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

<sup>[3]</sup> [Footnote deleted to reflect the conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 8.]

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

**.05** Compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles<sup>4</sup> are not comparable to financial statements that include such disclosures. Accordingly, the accountant should not issue a report on comparative financial statements when statements for one or more, but not all, of the periods presented omit substantially all of the disclosures required by generally accepted accounting principles. (See paragraphs .30 and .31 for guidance on reporting on financial statements that previously did not omit substantially all of the disclosures required by generally accepted accounting principles.) [As amended by the issuance of Statement on Standards for Accounting and Review Services No. 15, July 2007.]

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

## Definitions

**.07** The following definitions apply for purposes of this Section:

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

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

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

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

## Continuing Accountant's Standard Report

**.08** A continuing accountant who performs the same or a higher level of service with respect to the financial statements of the current period should update his report on the financial statements of a prior period presented with those of the current period.<sup>6</sup> A continuing accountant who performs a lower

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<sup>4</sup> For purposes of this Section, reference to generally accepted accounting principles includes, where applicable, an other comprehensive basis of accounting as defined in AR section 100.04. [Footnote amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by the issuance of Statement on Standards for Accounting and Review Services No. 15.]

<sup>5</sup> See paragraphs .13 and .45 of AR section 100, as amended. [Footnote revised, November 2002, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 9. Footnote revised, May 2004, to reflect the conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 10.]

<sup>6</sup> For purposes of this Section, 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 .28 and .29.

level of service with respect to the financial statements of the current period should either (a) include as a separate paragraph of his report a description of the responsibility assumed for the financial statements of the prior period (see paragraphs .11 and .12) or (b) reissue his report on the financial statements of the prior period.

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

### **Compilation Each Period**

I (we) have compiled the accompanying balance sheets of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

February 1, 20X3

### **Review Each Period**

I (we) have reviewed the accompanying balance sheets of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

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

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

March 1, 20X3

[As amended, effective for periods ending after December 15, 1993, by Statement on Standards for Accounting and Review Services No. 7.]

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

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20X2, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an

audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the 20X2 financial statements in order for them to be in conformity with generally accepted accounting principles.

The accompanying 20X1 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 20X1 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

March 1, 20X3

[As amended, effective for periods ending after December 15, 1993, by Statement on Standards for Accounting and Review Services No. 7.]

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

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

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

The accompanying 20X1 financial statements of XYZ Company were previously reviewed by me (us) and my (our) report dated March 1, 20X2, 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 20X1 financial statements.

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

**.13** During his current engagement, the accountant should be aware that circumstances or events may affect the prior-period financial statements presented, including the adequacy of informative disclosures. The accountant should consider the effects on his report on the prior-period financial statements of circumstances or events coming to his attention.

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

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

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

In my (our) previous (compilation) (review) report dated March 1, 20X2, on the 20X1 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 20X1 financial statements to reflect its land at cost in accordance with generally accepted accounting principles.

## Predecessor's Compilation or Review Report

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

## Predecessor's Compilation or Review Report Not Presented

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

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

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

<sup>[8]</sup> [Footnote deleted by the issuance of Statement on Standards for Accounting and Review Services No. 4, December 1981.]

<sup>9</sup> The successor accountant should not name the predecessor accountant in his or her report; however, the successor accountant may name the predecessor accountant if the predecessor accountant's practice was acquired by, or merged with, that of the successor accountant. [As amended, effective May 2004, by Statement on Standards for Accounting and Review Services No. 11.]

- 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 20X1 financial statements of XYZ Company were reviewed by other accountants whose report dated March 1, 20X2, 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 20X1 financial statements of XYZ Company were compiled by other accountants whose report dated February 1, 20X2, stated that they did not express an opinion or any other form of assurance on those statements.

## Predecessor's Compilation or Review Report Reissued

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

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

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

**.22** If a predecessor becomes aware of information, including information about events or transactions occurring subsequent to the date of his previous report, that he believes may affect the prior-period financial statements or his report on them, he should (a) make inquiries or perform analytical procedures similar to those he would have performed if he had been aware of such information at the date of his report on the prior-period financial statements and (b) perform any other procedures he considers necessary in the circumstances. For example, the predecessor may wish to discuss this information with the successor or to review the working papers of the successor as they relate to the matters affecting the prior-period financial statements. If the predecessor decides, based on the information obtained, that his report on the prior-period financial statements should be revised, he should follow the guidance in paragraphs .14, .15, .23, and .24.

**.23** A predecessor's knowledge of the current affairs of his former client is obviously limited in the absence of a continuing relationship. Consequently, when reissuing his report on the prior-period financial statements, a predecessor should use the date of his previous report to avoid any implication that

he has performed procedures after that date other than those described in paragraphs .20 to .22. If the predecessor revises his report or if the financial statements are restated, he should dual-date his report (for example, "March 1, 20X1, except for note X, as to which the date is March 15, 20X2"). 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.

## Restated Prior-Period Financial Statements

**.25** When prior-period financial statements have been restated,<sup>10</sup> the predecessor accountant would normally reissue his or her report following the guidance in paragraph .22. If the predecessor decides not to reissue his or her report, the successor accountant may be engaged to report on the financial statements for the prior year. If the predecessor accountant does not reissue his or her report and the successor accountant is not engaged to report on the prior year financial statements, the successor accountant should indicate in the introductory paragraph of his or her compilation or review report that a predecessor accountant reported on the financial statements of the prior period before restatement. In addition, if the successor accountant is engaged to compile or review the restatement adjustment(s), he or she may also indicate in the accountant's report that he or she compiled or reviewed the adjustment(s) that was (were) applied to restate prior-year financial statements. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by Statement on Standards for Accounting and Review Services No. 12.]

**.26** The following is an example of a successor accountant's compilation report when the predecessor accountant's report is not presented and the successor accountant is engaged to compile the restatement adjustment(s):

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20X2, and the related statements of income, retained earnings, and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. I (we) also compiled the adjustment(s) described in Note X that was (were) applied to restate the 20X1 financial statements. The 20X1 financial statements of XYZ Company, before the adjustment(s) described in Note X<sup>11</sup> that was (were) applied to restate the 20X1 financial statements,

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<sup>10</sup> See AR section 400.10–.11, *Communications Between Predecessor and Successor Accountants* for guidance regarding communication to the predecessor accountant with respect to information that leads the successor accountant to believe that the financial statements reported on by the predecessor accountant may require revision. [Footnote added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by Statement on Standards for Accounting and Review Services No. 12.]

<sup>11</sup> In the situation where management elects to omit substantially all disclosures, the accountant should follow the guidance in AR section 100, *Compilation and Review of Financial Statements* [section 100.19–.22], as amended. [Footnote added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by Statement on Standards for Accounting and Review Services No. 12.]

were compiled by other accountants whose report dated March 31, 20X2, did not express an opinion or any other form of assurance on those financial statements.

*[Same second paragraph as the standard report]*

[As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by Statement on Standards for Accounting and Review Services No. 12.]

**.27** The following is an example of a successor accountant's review report when the predecessor accountant's report is not presented and the successor accountant is engaged to review the restatement adjustment(s).<sup>12</sup>

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20X2, and the related statements of income, retained earnings, and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company. The 20X1 financial statements of XYZ before the adjustment(s) described in Note X that was (were) applied to restate the 20X1 financial statements were reviewed by other accountants whose report dated March 31, 20X2, stated that they were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with generally accepted accounting principles.

*[Same second and third paragraphs as the standard report]*

I (we) also reviewed the adjustment(s) as described in Note X that was (were) applied to restate the 20X1 financial statements. Based on my (our) review, nothing came to my (our) attention to indicate that the adjustment(s) is (are) not appropriate and properly applied.

[Paragraph added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by Statement on Standards for Accounting and Review Services No. 12.]

## Reporting When One Period Is Audited

**.28** Notwithstanding the provisions of paragraph .08, the accountant should follow the guidance in statements on auditing standards, which provide guidance on reporting on comparative financial statements when the current-period financial statements have been audited and those for one or more prior periods have been compiled or reviewed. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005.]

**.29** When the current-period financial statements of a nonissuer 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

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<sup>12</sup> The accountant should follow the performance requirements in AR section 100.29–.43, as amended. [Footnote added, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by Statement on Standards for Accounting and Review Services No. 12.]



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

The financial statements for the year ended December 31, 20X1, were audited by us (other accountants) and we (they) expressed an unqualified opinion on them in our (their) report dated March 1, 20X2, but we (they) have not performed any auditing procedures since that date.

[Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

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

**.30** 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 AR section 100, paragraph 2, 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. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005.]

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

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

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

The accompanying 20X1 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, 20X2.

February 1, 20X3

[As amended, effective for periods ending after December 15, 1993, by Statement on Standards for Accounting and Review Services No. 7. Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005.]

## Change of Status—Issuer/Nonissuer

**.32** 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. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005. Section head amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

**.33** For example, if the entity is an issuer in the current period and was a nonissuer in the prior period, a compilation or review report previously issued on the financial statements of the prior period should not be reissued or referred to in the report on the financial statements of the current and one or more prior periods.<sup>13</sup> If an entity is a nonissuer in the current period and was an issuer in the prior period, the annual financial statements of the prior period may have been audited.<sup>14</sup> In these circumstances, the accountant should refer to paragraph .29 for guidance on the appropriate method of reporting on the comparative financial statements. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

## Transition

**[.34–.36]** [Paragraphs deleted to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services

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<sup>13</sup> In these circumstances, the accountant should refer to auditing standards promulgated by the Public Company Accounting Oversight Board for guidance on the appropriate method of reporting on the comparative financial statements. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

<sup>14</sup> If an unaudited disclaimer of opinion was previously issued on the financial statements of the prior period, it should not be reissued or referred to in the report on the financial statements of the current period. In these circumstances, the accountant should comply with the compilation or review standards in AR section 100 (or perform an audit) and report accordingly on the financial statements of the prior period. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

No. 8. Paragraphs renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005.]

## Effective Date

.37 This Section 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. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 12, July 2005.]

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## AR Section 9200

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

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

**.01 Question**—Paragraph 30 of SSARS No. 2 [section 200.30], *Reporting on Comparative Financial Statements*, states that an accountant who has compiled, reviewed, or audited financial statements that do not omit substantially all of the disclosures required by generally accepted accounting principles may subsequently compile financial statements for the same period that do omit substantially all of those disclosures when they are to be presented in comparative financial statements. In these circumstances, SSARS No. 2 [section 200] requires the accountant's compilation report to include an additional paragraph indicating (a) the nature of the service rendered with respect to the financial statements that previously did not omit substantially all disclosures and (b) the date of his previous report.

**.02** When the accountant has previously audited such financial statements, he may have issued a qualified opinion (see paragraphs 38 and 39 of SAS No. 58 [AU section 508.38–.39], *Reports on Audited Financial Statements*) or an adverse opinion (see paragraphs 67 to 69 of SAS No. 58) [AU section 508.67–.69], or he may have disclaimed an opinion (see paragraphs 70 to 72 of SAS No. 58 [AU section 508.70–.72]). What effect, if any, should this have on the accountant's report on the comparative compiled financial statements? Also, when the accountant has previously compiled or reviewed such financial statements, what effect should a modification to his compilation or review report (see paragraphs 51 to 53 of SSARS No. 1 [section 100.51–.53]) have on the accountant's report on the comparative compiled financial statements?

**.03 Interpretation**—If financial statements that omit substantially all disclosures are compiled from financial statements that the accountant has previously audited, his report on the comparative compiled financial statements should indicate whether he expressed a qualified or adverse opinion, or disclaimed an opinion, on the audited financial statements, and the substantive reasons therefor. Similarly, if the accountant issued a modified compilation or review report or a report containing any paragraphs emphasizing a matter regarding the financial statements (see paragraphs 51 to 53 of SSARS No. 1 [section 100.51–.53]) on financial statements that previously did not omit substantially all disclosures, the accountant's reference to that report in his report on the comparative compiled financial statements should include a description or a quotation of any modifications of the standard report and of any paragraphs emphasizing a matter regarding the financial statements.

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

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

[Issue Date: November, 1980; Revised: November, 2002;  
Revised: May, 2004; Revised: July, 2005.]

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**AR Section 300*****Compilation Reports on Financial Statements  
Included in Certain Prescribed Forms***

Issue date, unless  
otherwise indicated:  
December, 1981

Source: SSARS No. 3; SSARS No. 5;  
SSARS No. 7; SSARS No. 15; SSARS No. 17

**.01** The requirements of AR section 100 and AR section 200 are applicable when the unaudited financial statements of a nonissuer are included in a prescribed form. This Section amends AR section 100 and AR section 200 to provide for an alternative form of standard compilation report when the prescribed form or related instructions call for departure from generally accepted accounting principles by specifying a measurement principle not in conformity with generally accepted accounting principles or by failing to request the disclosures required by generally accepted accounting principles.<sup>1</sup> This section also provides additional guidance applicable to reports on financial statements included in a prescribed form.<sup>[2]</sup> [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

**.02** For purposes of this section, a *prescribed form* is any standard preprinted form designed or adopted by the body to which it is to be submitted, for example, forms used by industry trade associations, credit agencies, banks, and governmental and regulatory bodies other than those concerned with the sale or trading of securities. A form designed or adopted by the entity whose financial statements are to be compiled is not considered to be a prescribed form. The terms *financial statement*, *issuer* and *nonissuer* are defined in paragraph .04 of AR section 100. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

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

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<sup>1</sup> For purposes of this section, reference to generally accepted accounting principles includes, where applicable, an other comprehensive basis of accounting as defined in AR section 100.04. Disclosure of the basis of accounting should be made when an other comprehensive basis of accounting is used. [Footnote amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by the issuance of Statements on Standards for Accounting and Review Services No. 15.]

<sup>[2]</sup> [Deleted to reflect the incorporation of material into relevant sections of the Statements on Standards for Accounting and Review Services.]

financial statements of a nonissuer are included in a prescribed form that calls for departure from generally accepted accounting principles:

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

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

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

[As amended, effective for periods ending after December 15, 1993, by Statement on Standards for Accounting and Review Services No. 7. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by Statement on Standards for Accounting and Review Services No. 17.]

**.04** If the accountant becomes aware of a departure from generally accepted accounting principles other than departures that may be called for by the prescribed form or related instructions (see paragraph .01), he should follow the guidance in AR section 100.56–.58, as amended, regarding such departures. (The sentence introducing the separate paragraph of his report disclosing the departure might read as follows: "However, I did become aware of a departure from generally accepted accounting principles that is not called for by the prescribed form or related instructions, as described in the following paragraph.") If the accountant becomes aware of a departure from the requirements of the prescribed form or related instructions, he should consider that departure as the equivalent of a departure from generally accepted accounting principles in determining its effect on his report. [Revised, November 2002, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 9. Revised, May 2004, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 10. Revised, July 2005, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 12.]

**.05** The accountant should not sign a preprinted report form that does not conform with the guidance in this Section or AR section 100, as amended, whichever is applicable. In such circumstances, the accountant should append an appropriate report to the prescribed form.

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## AR Section 9300

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

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

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

**.02 Interpretation**—Yes. The footnote to paragraph 2 of SSARS No. 1 [section 100.02] (as amended) permits an accountant who has reviewed the financial statements of a nonissuer to issue a compilation report on financial statements for the same period that are included in a prescribed form that calls for a departure from generally accepted accounting principles. When the difference between the previously reviewed financial statements and the financial statements included in the prescribed form is limited to the omission of disclosures not requested by the form, the accountant may wish to refer to his review report in his report on the compiled financial statements included in the prescribed form. This might be accomplished by adding a sentence such as the following to the second paragraph of the report illustrated in paragraph 3 of SSARS No. 3 [section 300.03] or as a separate paragraph: "These financial statements were compiled by me (us) from financial statements for the same period which I (we) previously reviewed, as indicated in my (our) report dated \_\_\_\_." <sup>18</sup> The reference to a previous review report should include a description or a quotation of any modifications of the standard review report previously issued and of any paragraphs emphasizing a matter regarding the financial statements.

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

[Issue Date: May, 1982. Revised: February, 2008.]

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<sup>18</sup> The report included in paragraph 3 of SSARS No. 3 [section 300.03] is an alternate form of report. If the accountant elects to use the standard compilation report included in SSARS No. 1, paragraph 18 [section 100.20] this sentence may be added to that report.



**AR Section 400*****Communications Between Predecessor and Successor Accountants***

Issue date, unless  
otherwise indicated:  
December, 1981

Source: SSARS No. 4; SSARS No. 7;  
SSARS No. 9; SSARS No. 15; SSARS No. 17

**.01** This Section provides guidance on communications between a predecessor and successor accountant when the successor accountant decides to communicate with the predecessor accountant regarding acceptance of an engagement to compile or review the financial statements of a nonissuer.<sup>[1]</sup> This Section also provides guidance on 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. [As amended, effective for periods ending after December 15, 1993, by Statement on Standards for Accounting and Review Services No. 7. As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

**.02** The following definitions apply for purposes of this Section:

*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 (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.

[As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

**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 is beneficial to obtain information that will assist in determining whether to accept the engagement. The successor

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<sup>[1]</sup> [Footnote deleted by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

accountant may consider making inquiries of the predecessor accountant when circumstances such as the following exist:<sup>[2]</sup>

- a. The information obtained about the prospective client and its management and principals is limited or appears to require special attention.
- 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. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

**.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 engagement unless the client specifically consents. Accordingly, if the successor accountant decides to communicate with the predecessor, the successor accountant should request the client to (a) permit the successor accountant to make inquiries of the predecessor accountant and (b) authorize the predecessor accountant to respond fully to those inquiries.<sup>3</sup> If the prospective client refuses to permit the predecessor accountant to respond or limits the response, the successor accountant should inquire about the reasons and consider the implications of that refusal in connection with acceptance of the engagement. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

**.05** When the successor accountant decides to communicate with the predecessor accountant, the 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 would include (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, (d) the predecessor's 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. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

**.06** The predecessor accountant should respond promptly and fully to the inquiries, on the basis of known facts. However, if the predecessor accountant decides, due to unusual circumstances<sup>4</sup> such as impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not

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<sup>[2]</sup> [Footnote deleted by the issuance of Statement on Standards for Accounting and Review Services No. 7, November 1992.]

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

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

to respond fully to the inquiries, the predecessor accountant should indicate that the response is limited. The successor accountant should consider the reasons and consider the implications of such a response in connection with acceptance of the engagement. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

## Other Inquiries

**[.07]** [Paragraph deleted by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

**.08** The successor accountant also may wish to review the predecessor's working papers.<sup>5</sup> In these circumstances, the successor accountant should request the client to authorize the predecessor accountant to allow 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 working papers. The predecessor accountant should determine which working papers are to be made available for review and which 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 working papers.<sup>6</sup> The predecessor accountant may decide to reach an understanding with the successor accountant about the use of the working papers.<sup>7</sup> 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. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

## Successor Accountant's Use of Communications

**.09** 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 AR section 200 with respect to the financial statements of a prior period. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9. As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by Statement on Standards for Accounting and Review Services No. 15.]

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<sup>5</sup> Statement 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.

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

<sup>7</sup> 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 Appendix [paragraph .12] contains an illustrative successor accountant acknowledgment letter. [Footnote added, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

## Financial Statements Reported on by Predecessor Accountant

**.10** If, during the 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 should request the client to communicate this information to the predecessor accountant. AR section 100.77 provides guidance to the predecessor accountant in determining an appropriate course of action. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9. Revised, May 2004, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 10. Revised, July 2005, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 12.]

**.11** 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 to consult with legal counsel in determining an appropriate course of further action. [Paragraph added, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

.12

## Appendix

### Illustrative Successor Accountant Acknowledgment Letter

Paragraph .08, footnote 7, 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 [compilation or review] procedures to assist you in planning your 20X2 [compilation or review] of the financial statements 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 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 services or otherwise accept an engagement to comment on issues relating to the quality of our engagement.

[Paragraph added, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9. Revised, September 2005, to reflect conforming changes necessary due to the Accounting and Review Services Committee.]

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## AR Section 9400

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

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

**.01 Question**—SSARS No. 4, *Communications Between Predecessor and Successor Accountants* [section 400], provides guidance on communication between a successor accountant and a predecessor accountant. The guidance provided concerns only the situation in which one accountant succeeds another in a compilation or review engagement.

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

**.03 Interpretation**—SAS No. 50, *Reports on the Application of Accounting Principles* [AU section 625], as amended, applies to any accountant in public practice asked to provide written advice on the application of accounting principles to specified transactions involving facts and circumstances of a specific entity, or the type of opinion that may be rendered on a specific entity's financial statements.

**.04** SAS No. 50 [AU section 625] also applies to oral advice that the reporting accountant concludes is intended to be used by a principal to the transaction as an important factor considered in reaching a decision on the application of accounting principles to a specific transaction, or the type of opinion that may be rendered on a specific entity's financial statements.

**.05** Paragraph 9 of SAS No. 50 [AU section 625.09] states that the reporting accountant who is requested to provide such written or oral advice by an entity should consult with that entity's accountant, if any, to ascertain all the available facts relevant to forming a professional judgment. The reporting accountant should follow the performance and reporting guidance in SAS No. 50 [AU section 625] for such engagements.

[Issue Date: August, 1987; Revised: November, 2002.]

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**AR Section 500*****Reporting on Compiled Financial Statements***

Deleted by the issuance of Statement on Standards for Accounting and Review Services No. 7, November 1992.

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**AR Section 600*****Reporting on Personal Financial Statements  
Included in Written Personal Financial Plans***

Issue date, unless  
otherwise indicated:  
September, 1986

Source: SSARS No. 6

**.01** This statement provides an exemption from Statement on Standards for Accounting and Review Services (SSARS) No. 1 [section 100], as amended, for personal financial statements that are included in written personal financial plans prepared by an accountant, and specifies the form of written report required under the exemption.<sup>1</sup> However, this statement does not preclude an accountant from complying with SSARS No. 1 [section 100] in such engagements.

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

**.03** An accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of SSARS No. 1 [section 100], as amended, when all of the following conditions exist:

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

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

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

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<sup>1</sup> For purposes of this statement, personal financial statements are those financial statements of an individual that meet the definition of financial statements in paragraph 4 of SSARS No. 1 [section 100.04], *Compilation and Review of Financial Statements*.

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

The accompanying Statement of Financial Condition of X, as of December 31, 20XX, was prepared solely to help you develop your personal financial plan. Accordingly, it may be incomplete or contain other departures from generally accepted accounting principles and should not be used to obtain credit or for any purposes other than developing your financial plan. We have not audited, reviewed, or compiled the statement.

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

## Effective Date

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

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## AR Section 9600

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

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

**.01 Question**—Paragraph 3 of Statements on Standards for Accounting and Review Services (SSARS) No. 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* [section 600.03], states that an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of SSARS No. 1, *Compilation and Review of Financial Statements* [section 100] when, among other conditions, the accountant establishes an understanding with the client that the financial statements will be used solely to assist the client and the client's advisers to develop the client's personal financial goals and objectives. Does developing the client's personal financial goals and objectives encompass implementing the personal financial plan by the client or the client's advisers?

**.02 Interpretation**—Yes. Developing a client's personal financial goals and objectives includes implementing the personal financial plan by the client or the client's advisers because implementing the plan may be considered the culmination of the process of developing personal financial goals and objectives. Therefore, an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client, to be used by the client or the client's advisers to implement the personal financial plan, without complying with the requirements of SSARS No. 1 [section 100], provided the conditions in paragraph 3 of SSARS No. 6 [section 600.03] exist.

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

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

[Issue Date: May 1991.]

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EXHIBITS

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## AR Exhibit A

# ***Analytical Procedures in a Review Engagement***

### **Notice to Readers**

The purpose of the documentation guidance contained in this exhibit is to illustrate how an accountant might document expectations in a review engagement. The examples are presented for illustrative purposes only and should not be considered to represent either minimum or maximum documentation requirements.

This exhibit is an other compilation and review publication as defined in AR section 50, *Standards for Accounting and Review Services*. Other compilation and review publications have no authoritative status; however, they may help the accountant understand and apply Statements on Standards for Accounting and Review Services (SSARS). If an accountant applies the guidance included in an other compilation and review publication, the accountant should be satisfied that, in his or her judgment, it is both appropriate and relevant to the circumstances of the subject engagement. This publication was reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate.

### **Expectations**

Forming an expectation is an integral phase of the analytical procedure process. Expectations are the accountant's predictions of recorded amounts or ratios developed from recorded amounts. In performing analytical procedures, the accountant develops the expectation in such a way that a material difference between the expectation and the recorded amount or ratio is indicative of a possible misstatement and, therefore, the accountant should obtain explanations for the difference (for example, an unusual event occurred). Expectations are developed by identifying plausible relationships (for example, store square footage and retail sales) that are reasonably expected to exist based on the accountant's understanding of the client and the industry in which the client operates. The accountant selects from a variety of data sources to form expectations. For example, the accountant may use prior-period information (adjusted for expected changes), management's budgets or forecasts, industry data, or nonfinancial data. Additionally, information that is developed when an accountant compiles interim financial statements can be utilized by the accountant in developing expectations associated with the review of financial statements.

An accountant cannot, under any circumstances, perform effective analytical procedures without first developing expectations related to the results of those analytical procedures. Expectations developed by the accountant in performing analytical procedures in connection with a review of financial statements ordinarily are less encompassing than those developed in an audit.

Pursuant to paragraph .45 of AR section 100, *Compilation and Review of Financial Statements*, the accountant should document expectations and factors considered in the development of those expectations where significant expectations are not otherwise readily determinable from the documentation of the work performed.

The following are examples of how an accountant can document expectations. These examples are not intended to be all inclusive.

Example 1—Expected Increase in Revenue

An accountant is engaged to review the financial statements of a company that manufactures components that are utilized by other companies in customizing vehicles for use by the United States military. Because of various conflicts occurring in the world and the United States' role in those conflicts, the accountant reasonably expects sales to increase. Using his or her knowledge of the client, the client's business, and the industry in which the client operates, the accountant expects a 10 percent to 15 percent increase in sales. Further, the accountant concludes that receivables should increase and that loans payable and interest expense would also increase because the client would need to borrow money to fund the additional production.

Sample documentation

Teemickmag Military Supply Company  
Analytical Procedures  
For the year ended December 31, 20XX

Expectations

The following are factors that should affect the relationship between current and prior year amounts:

- Increase in military spending by the government due to world events should result in an increase in sales. Expected increase is between 10 percent and 15 percent. The accountant expects a similar increase in accounts receivable.
- Because of an increase in production of military vehicles, the company had to borrow additional funds. Therefore, expected increase in loans payable and interest expense is between 10 percent and 15 percent.
- No significant change in either days sales in inventory or inventory turnover is expected. Although a build-up in inventory is expected, that build-up is not expected to correspond with the increase in sales because the vehicles are expected to be sold near the date of completion. Any change greater than 5 percent will be subjected to additional inquiries.

Balance sheets and income statements are available for the current year and the two years prior to the current year.

Trend analysis

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>	<u>% Change</u>
Sales	\$2,500,000	\$2,175,000	\$325,000	14.94%
Cost of goods sold	1,780,000	1,566,000	214,000	13.67%
Gross margin	720,000	609,000		
Gross margin as a % of sales	28.80%	28.00%		
Selling expenses	230,000	184,000	46,000	25.00%
Interest expense	48,000	42,000	6,000	14.29%

*Balance sheet ratio analysis*

	<u>Current Year</u>	<u>Prior Year</u>	<u>Two Years Prior</u>
Accounts receivable, net	\$1,100,000	\$843,000	\$703,000
Inventory	1,000,000	832,000	694,000
Loans payable	498,000	437,000	418,000

*Days sales in receivables*

Days sales in receivables = Accounts receivable, net at end of period / (Net sales/365)

Current year days sales in receivables = \$1,100,000 / (\$2,500,000 / 365) = 161 days

Prior year days sales in receivables = \$843,000 / (\$2,175,000 / 365) = 141 days

The increase of 20 days sales in receivables (161 days – 141 days) represents a 14 percent increase. Because this increase is within the expected range, no further inquiry is necessary.

*Days sales in inventory*

Days sales in inventory = Inventory at the end of period / (Total cost of goods sold / 365)

Current year days sales in inventory = \$1,000,000 / (\$1,780,000 / 365) = 205 days

Prior year days sales in inventory = \$832,000 / (\$1,566,000 / 365) = 194 days

The increase of 11 days sales in inventory (205 days – 194 days) represents a 6 percent increase. Because this increase is greater than expected, the accountant should inquire of the client and document the reason for the unexpected increase.

*Inventory turnover*

Inventory turnover = Cost of goods sold / Average inventory

Current year inventory turnover = \$1,780,000 / ((\$1,100,000 + 832,000) / 2) = 1.84 times

Prior year inventory turnover = \$1,566,000 / ((\$832,000 + 694,000) / 2) = 2.05 times

The inventory turnover decreased 10 percent; therefore, because this decrease is greater than expected, the accountant should inquire of the client and document the reason for the unexpected decrease.

The preceding documentation would be adequate. Further, after performing the trend analysis, the accountant concludes that sales, costs of goods sold, and interest expense are all "reasonable" given the expectations associated with these amounts. In addition, with respect to balance sheet accounts, the increase in loans payable is also reasonable (14 percent increase) when considered with the corresponding increase in interest expense and the expectation associated with the loan payable account; however, because selling expenses increased by 25 percent, the accountant should inquire of the client and document the reason for that unexpected increase (actual increase does not correspond to expected increase).

Example 2—Expected Decrease in Revenue

An accountant is engaged to review the financial statements of a client that either owns or manages, or both owns and manages, a shopping mall. Due to a poor economy, the mall lost tenants during the year; as such, the accountant reasonably expects revenue to decrease. Using his or her knowledge of the client, the client's business, and the industry in which the client operates, the accountant expects a 5 percent to 10 percent decrease in revenue during the year. Further, the accountant expects that general and administrative expenses should increase due to an increase in leasing and sales expenses and that management fees should decrease due to a decrease in tenants in the building.

Sample documentation

Pearl River Mall  
Analytical Procedures  
For the year ended December 31, 20XX

Expectations

The following are factors that should affect the relationship between current and prior year amounts:

- Loss of tenants due to poor economy should result in a decrease in revenue. Expected decrease is between 5 percent and 10 percent.
- Because of the increased number of vacancies, general and administrative expenses are expected to increase because of an increase in leasing and sales expenses. Expected increase is between 5 percent and 10 percent (corresponds with the decrease in revenue).
- Because of the decrease in the number of tenants in the building, management fees are expected to decrease between 5 percent and 10 percent (corresponds with decrease in revenue).

Balance sheets and income statements are available for the current year and the two years prior to the current year.

Trend analysis

	<u>Current</u> <u>Year</u>	<u>Prior Year</u>	<u>Change</u>	<u>% Change</u>
Tenant revenue	\$7,223,000	\$8,603,000	\$(1,380,000)	(16.04)%
Costs and expenses:				
Management fees	339,000	387,000	(48,000)	(12.40)%
General and administrative	583,000	511,000	72,000	14.09 %

Similar balance sheet analytics should be performed as those performed in Example 1 above.

The preceding documentation would be adequate; however, the results of the analytical procedures do not agree with the documented expectations associated with those procedures. Therefore, the accountant should inquire and document why the decrease in tenant revenue, the decrease in management fees, and the increase in general and administrative expenses exceeded expectations.

### Example 3—No significant change in revenue or expenses expected

An accountant is engaged to review the financial statements of a small, privately held client in the candy store business. The accountant has performed a review of the financial statements of the candy store for each of the past five years with no significant change in revenue or expenses in any of those years. The accountant expects that trend to continue.

#### *Sample documentation*

Mom and Pop Candy Store

Analytical Procedures

For the year ended December 31, 20XX

#### *Expectations*

- Based on discussions with the owner and manager, no significant changes from prior year amounts are expected.
- All increases and decreases greater than 5 percent will be subjected to additional inquiries.

#### *Trend analysis*

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>	<u>% Change</u>
Sales	\$44,000	\$39,000	\$5,000	12.82%
Cost of goods sold	32,500	31,000	1,500	4.84%
Gross margin	11,500	8,000		
Gross margin as a % of sales	26.14%	20.51%		
Operating expenses	5,200	4,500	700	15.56%
Net income	6,300	3,500		

Similar balance sheet analytics should be performed as those performed in Example 1 above.

The preceding documentation would be adequate; however, the results of the analytical procedures do not agree with the documented expectations associated with those procedures. Therefore, the accountant may deem it appropriate to inquire and document why sales increased by an amount greater than expected. In addition, the accountant should inquire as to why there was not a comparable increase in cost of goods sold. Also, the accountant should discuss with the owner and manager why there is a greater than expected increase in operating expenses and document the results of the discussion.

### Example 4—Expected Changes in Construction Contracts

An accountant is engaged to review the financial statements of a general construction contractor primarily engaged in the construction of commercial office buildings. The accountant has performed the review of this company's financial statements for several years and expects that the current project in process should yield a 5 percent gross profit margin consistent with similar projects in the past and in accordance with the initial project estimate.

*Sample documentation*

ABC Construction Contractors  
Analytical Procedures  
For the year ended December 31, 20XX

*Expectations*

- Based upon discussions with the project manager, it is believed that the gross margin will be consistent with the 5 percent margin achieved in the past and in accordance with the initial project estimate.
- Any deviation in the margin greater than 1 percent will be subjected to additional inquiries.

*Trend analysis*

<u>Building Contract</u>	<u>Current Year</u>	<u>Prior Year</u>	<u>\$ Change</u>	<u>% Change</u>
Contract value	\$5.0 million	\$5.0 million		
Estimated costs at completion	4.9 million	4.75 million	\$150,000	3.15%
Planned profit	100,000	250,000	150,000	60.00%
Costs incurred	2.5 Million	1.0 million		
Profit recognized contract to date	50,000	50,000		

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## AR Exhibit B

### *Going Concern Considerations*

#### Notice to Readers

The purpose of this nonauthoritative exhibit is to help practitioners better understand the accounting concepts of going concern in performing a compilation or review engagement. This exhibit has been prepared and reviewed by AICPA staff; however, it has not been approved, disapproved, or otherwise acted upon by the Accounting and Review Service Committee or any senior technical committee of the AICPA.

#### Going Concern Consideration

Continuation of an entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Ordinarily, information that indicates an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, typically not to exceed one year beyond the date of the financial statements, relates to the entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations, or similar actions.

Certain conditions or events, when considered in the aggregate, may indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. The significance of such conditions and events will depend on the circumstances, and some may have significance only when viewed in conjunction with others. The following are examples of such conditions and events:

- *Negative trends.* For example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, adverse key financial ratios.
- *Other indications of possible financial difficulties.* For example, default on loan or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, restructuring of debt, noncompliance with statutory capital requirements, need to seek new sources or methods of financing or to dispose of substantial assets.
- *Internal matters.* For example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, need to significantly revise operations.
- *External matters that have occurred.* For example, legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; uninsured or underinsured catastrophe such as a drought, earthquake, or flood.

After identifying adverse conditions and events, management's plans for dealing with the conditions or events may include the following:

- Plans to dispose of assets
  - Restrictions on disposal of assets, such as covenants limiting such transactions in loan or similar agreements or encumbrances against assets
  - Apparent marketability of assets that management plans to sell
  - Possible direct or indirect effects of disposal of assets
- Plans to borrow money or restructure debt
  - Availability of debt financing, including existing or committed credit arrangements, such as lines of credit or arrangements for factoring receivables or sale-leaseback of assets
  - Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the entity
  - Possible effects on management's borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral
- Plans to reduce or delay expenditures
  - Apparent feasibility of plans to reduce overhead or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets
  - Possible direct or indirect effects of reduced or delayed expenditures
- Plans to increase ownership equity
  - Apparent feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital
  - Existing or committed arrangements to reduce current dividend requirements or to accelerate cash distributions from affiliates or other investors

## Financial Statement Effects

When management concludes there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, management should consider disclosing the following:

- Pertinent conditions and events giving rise to the assessment of the uncertainty about the entity's ability to continue as a going concern for a reasonable period of time
- The possible effects of such conditions and events
- Management's evaluation of the significance of those conditions and events and any mitigating factors
- Possible discontinuance of operations
- Management's plans (including relevant prospective financial information)
- Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities

When management concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time is alleviated, management should consider the need for disclosure of the principal conditions and events that initially caused it to believe there was an uncertainty. The consideration of disclosure may include the possible effects of such conditions and events, and any mitigating factors, including management's plans.

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## AR Exhibit C

[Exhibit deleted, October 2009, to reflect conforming changes necessary due to the issuance of FASB ASC 855, which provides authoritative accounting guidance for subsequent events.]

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APPENDIXES

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## AR Appendix A

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

<i>No.</i>	<i>Date Issued</i>	<i>Title</i>	<i>Section</i>
1	Dec. 1978	<b>Compilation and Review of Financial Statements</b>	100
2	Oct. 1979	<b>Reporting on Comparative Financial Statements</b>	200
		Amends section 100.04; Supersedes section 100[.92].	
3	Dec. 1981	<b>Compilation Reports on Financial Statements Included in Certain Prescribed Forms</b>	300
		Amends sections 100.02, .18, .19, .55, and 200.02.	
4	Dec. 1981	<b>Communications Between Predecessor and Successor Accountants</b>	400
		Amends section 200.16.	
5	July 1982	<b>Reporting on Compiled Financial Statements</b>	500
		Deleted by SSARS No. 7, November 1992, because the provisions of SSARS No. 5 have been incorporated into sections 100, 200, and 300.	
6	Sept. 1986	<b>Reporting on Personal Financial Statements Included in Written Personal Financial Plans</b>	600
7	Nov. 1992	<b>Omnibus Statement on Standards for Accounting and Review Services—1992</b>	
		Not published as a stand-alone section; Integrated to amend sections 100, 200, 300, and 400; Deletes SSARS No. 5.	
8	Oct. 2000	<b>Amendment to Statement on Standards for Accounting and Review Services No. 1, <i>Compilation and Review of Financial Statements</i></b>	
		Not published as a stand-alone section; Amends former section 100.01–.27 (subsequent paragraphs and footnotes have been renumbered accordingly); adds a new appendix A [paragraph .97] and D [paragraph .100]; deletes former appendix E [paragraph [.101]].	

(continued)

<i>No.</i>	<i>Date Issued</i>	<i>Title</i>	<i>Section</i>
9	Nov. 2002	<b>Omnibus Statement on Standards for Accounting and Review Services—2002</b>	
		Not published as a stand-alone section; Amends section 100.03, .04, .10, and .13; deletes section 100.14; section 100.29; and section 100.31; adds section 100.39; amends .40 and .46; deletes section 100.47; amends section 100.51 and .83, adds section 100.93–.95 (subsequent paragraphs and footnotes have been renumbered accordingly); amends section 400.01–.06; deletes section 400.07; amends section 400.08–.10; and adds section 400.11 and .12.	
10	May 2004	<b>Performance of Review Engagements</b>	
		Not published as a stand-alone section; Amends section 100.29; amends and transfers section 100.39 to section 100.31; amends section 100.33; adds section 100.36 and .37; amends section 100.38, .39, .41; adds section 100.42; amends section 100.43; adds section 100.44 (subsequent paragraphs have been renumbered accordingly); amends section 100.98; adds a new appendix H [paragraph .104].	
11	May 2004	<b>Standards for Accounting and Review Services</b>	50
		Amends section 200.17.	
12	July 2005	<b>Omnibus Statement on Standards for Accounting and Review Services—2005</b>	
		Not published as a stand-alone section; Amends section 100.05, .10, and .31; adds section 100.40; amends section 100.45; adds section 100.59–.68, .84, and .85 (subsequent paragraphs and footnotes have been renumbered accordingly); adds a new appendix G [paragraph .103] (subsequent paragraphs have been renumbered accordingly); rescinds Accounting and Review Interpretation No. 26 of SSARS No. 1 at section 9100.100–.103; amends section 200.25 and .26; adds section 200.27 (subsequent paragraphs and footnotes have been renumbered accordingly).	
13	July 2005	<b>Compilation of Specified Elements, Accounts, or Items of a Financial Statement</b>	110
		Rescinds Accounting and Review Interpretation No. 8 of SSARS No. 1 at section 9100.27–.28.	

<i>No.</i>	<i>Date Issued</i>	<i>Title</i>	<i>Section</i>
14	July 2005	<b>Compilation of Pro Forma Financial Information</b>	120
15	July 2007	<b>Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services</b>	
		Not published as a stand-alone section; Amends section 100.01, .04, and .16; adds section 100.17; amends section 100.20; adds section 100.22; amends section 100.47, adds section 100.50, amends section 100.51–.53, adds section 100.54–.55; amends section 100.64, adds section 100.78–.82; amends section 100.92, and .95 (subsequent paragraphs and footnotes have been renumbered accordingly); rescinds Accounting and Review Interpretations No. 4 of SSARS No. 1 at section 9100.13–.15 and No. 12 at section 9100.41–.45; amends section 200.05; section 300.01; and section 400.09.	
16	December 2007	<b>Defining Professional Requirements in Statements on Standards for Accounting and Review Services</b>	20
17	February 2008	<b>Omnibus Statement on Standards for Accounting and Review Services—2008</b>	
		Not published as a stand-alone section; Amends section 100.01, .03; and .04; adds section 100.06; .12; and .28; amends section 100.29; adds section 100.30; amends section 100.31; adds section 100.32; amends section 100.36 and .41; adds section 100.69; .70; .71; .72; .73; .74; .75; and .76; amends section 100.83; .85; .86; .99; .100; .101; .102 (subsequent paragraphs and footnotes have been renumbered accordingly); amends section 110.15; amends section 120.18; amends section 200.01; .29; and .33; amends section 300.01; .02; and .03; amends section 400.01.	
18	February 2009	<b>Applicability of Statements on Standards for Accounting and Review Services</b>	
		Amends section 100.01.	
19	December 2009	<b>Compilation and Review Engagements</b>	60, 80, and 90
		Supersedes sections 20, 50, and 100.	



## AR Appendix B

*[Reserved.]*

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## AR Appendix C

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

<i>Section</i>	<i>Par.</i>	<i>Changes</i>	<i>Date of Change</i>
20		SSARS No. 16 added	December 2007
20		Superseded by SSARS No. 19	December 2009
50		Added by SSARS No. 11	May 2004
50		Superseded by SSARS No. 19	December 2009
50	.01	Amended by SSARS No. 17	December 2008
60		Added by SSARS No. 19	December 2009
80		Added by SSARS No. 19	December 2009
90		Added by SSARS No. 19	December 2009
100		Superseded by SSARS No. 19	December 2009
100	.01	Amended by SSARS No. 8	October 2000
100	.01	Amended by SSARS No. 15	July 2007
100	.01	Amended by SSARS No. 17	February 2008
100	.01	Amended by SSARS No. 18	February 2009
100	.02	Amended by SSARS No. 3	December 1981
100	.02	Amended by SSARS No. 8	October 2000
100	.02	Amended by SSARS No. 17	December 2008
100	.03	Amended by SSARS No. 8	October 2000
100	.03	Amended by SSARS No. 9	November 2002
100	.03	Amended by SSARS No. 17	February 2008
100	.04	Amended by SSARS No. 2	October 1979
100	.04	Amended by SSARS No. 8	October 2000
100	.04	Amended by SSARS No. 9	November 2002
100	.04	Amended by SSARS No. 15	July 2007
100	.04	Amended by SSARS No. 17	February 2008
100	.05	Amended by SSARS No. 8	October 2000
100	.05	Amended by SSARS No. 12	July 2005
100	.06	New paragraph added by issuance of SSARS No. 17; subsequent paragraphs renumbered	February 2008
100	.07	Amended by SSARS No. 8	October 2000
100	.08	Amended by SSARS No. 8	October 2000
100	.09	Amended by SSARS No. 8	October 2000
100	.10	Amended by SSARS No. 8	October 2000
100	.10	Amended by SSARS No. 9	November 2002
100	.10	Amended by SSARS No. 12	July 2005

(continued)

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<i>Section</i>	<i>Par.</i>	<i>Changes</i>	<i>Date of Change</i>
100	.11	Amended by SSARS No. 8	October 2000
100	.12	New paragraph added by issuance of SSARS No. 17; subsequent paragraphs renumbered	February 2008
100	.13	Amended by SSARS No. 8	October 2000
100	.13	Amended by SSARS No. 9	November 2002
100	.14	Amended by SSARS No. 8	October 2000
100	.14	Deleted by SSARS No. 9	November 2002
100	.15–.16	Amended by SSARS No. 8	October 2000
100	.16	Amended by SSARS No. 15	July 2007
100	.17	New paragraph added by issuance of SSARS No. 15; subsequent paragraphs renumbered	July 2007
100	.18–.19	Amended by SSARS No. 3	December 1981
100	.20–.21	Amended by SSARS No. 8	October 2000
100	.21	Amended by SSARS No. 15	July 2007
100	.22	New paragraph added by issuance of SSARS No. 15; subsequent paragraphs renumbered	July 2007
100	.23–.27	Amended by SSARS No. 8	October 2000
100	.28	New paragraph added by issuance of SSARS No. 17; subsequent paragraphs renumbered	February 2008
100	.29	Amended by SSARS No. 9	November 2002
100	.29	Amended by SSARS No. 10	May 2004
100	.29	Amended by SSARS No. 17	February 2008
100	.30	New paragraph added by issuance of SSARS No. 17; subsequent paragraphs renumbered	February 2008
100	.31	Amended by SSARS No. 9	November 2002
100	.31	Amended and transferred, from former 100.32, by SSARS No. 10; subsequent paragraphs renumbered	May 2004
100	.31	Amended by SSARS No. 12	July 2005
100	.31	Amended by SSARS No. 17	February 2008
100	.32	New paragraphs added by issuance of SSARS No. 17; subsequent paragraphs renumbered	February 2008
100	.33	Amended by SSARS No. 10	May 2004
100	.36	New paragraphs added by issuance of SSARS No. 10; subsequent paragraphs renumbered	May 2004



<i>Section</i>	<i>Par.</i>	<i>Changes</i>	<i>Date of Change</i>
100	.36	Amended by SSARS No. 17	February 2008
100	.37–.38	New paragraphs added by issuance of SSARS No. 10; subsequent paragraphs renumbered	May 2004
100	.38	Amended by SSARS No. 10	May 2004
100	.39	New paragraph added by issuance of SSARS No. 9; subsequent paragraphs renumbered	November 2002
100	.39	Amended by SSARS No. 10	May 2004
100	.40	New paragraph added by issuance of SSARS No. 12; subsequent paragraphs renumbered	July 2005
100	.41	Amended by SSARS No. 9	November 2002
100	.41	Amended by SSARS No. 17	February 2008
100	.42	Amended by SSARS No. 10	May 2004
100	.43	New paragraph added by issuance of SSARS No. 10; subsequent paragraphs renumbered	May 2004
100	.44	Amended by SSARS No. 10	May 2004
100	.45	New paragraph added by issuance of SSARS No. 10; subsequent paragraphs renumbered	May 2004
100	.45	Amended by SSARS No. 12	July 2005
100	.46	Amended by SSARS No. 9	November 2002
100	.47	Deleted by SSARS No. 9	November 2002
100	.49	Amended by SSARS No. 15	July 2007
100	.50	New paragraph added by issuance of SSARS No. 15; subsequent paragraphs renumbered	July 2007
100	.51	Amended by SSARS No. 9	November 2002
100	.53	Amended by SSARS No. 3	December 1981
100	.54–.55	New paragraph added by issuance of SSARS No. 15; subsequent paragraphs renumbered	July 2007
100	.56	Amended by SSARS No. 5	July 1982
100	.56	Amended by SSARS No. 3	December 1981
100	.56–.58	Amended by SSARS No. 15	July 2007
100	.59–.68	New paragraphs added by SSARS No. 12; subsequent paragraphs renumbered	July 2005
100	.69–.76	New paragraphs added by SSARS No. 12; subsequent paragraphs renumbered	February 2008

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<i>Section</i>	<i>Par.</i>	<i>Changes</i>	<i>Date of Change</i>
100	.77	Amended by SSARS No. 9	November 2002
100	.77	Amended by SSARS No. 15	July 2007
100	.78–.82	New paragraphs added by issuance of SSARS No. 15; subsequent paragraphs renumbered	July 2007
100	.83	Amended by SSARS No. 17	February 2008
100	.84–.85	New paragraphs added by SSARS No. 12; subsequent paragraphs renumbered	July 2005
100	.85–.86	Amended by SSARS No. 17	February 2008
100	.92	Superseded by SSARS No. 2	October 1979
100	.93–.95	New paragraphs added by issuance of SSARS No. 9; subsequent paragraphs renumbered	November 2002
100	.94	Amended by SQCS 7	December 2008
100	.97	New paragraph added by issuance of SSARS No. 8; subsequent paragraphs renumbered	October 2000
100	.98	Amended by SSARS No. 10	May 2004
100	.98	Revised	December 2008
100	.99	Amended by SSARS No. 5	July 1982
100	.99	Amended by SSARS No. 17	February 2008
100	.100	New paragraph added by issuance of SSARS No. 8; subsequent paragraphs renumbered	October 2000
100	.100–.101	Amended by SSARS No. 17	February 2008
100	.102	Amended by SSARS No. 15	July 2007
100	.102	Amended by SSARS No. 17	February 2008
100	.103	New paragraphs added by SSARS No. 12; subsequent paragraphs renumbered	July 2005
100	.104	Deleted by SSARS No. 8	October 2000
100	.105	New paragraph added by issuance of SSARS No. 10; subsequent paragraphs renumbered	May 2004
100	.105	Amended by SSARS No. 15	July 2007
100	.106	New paragraph added by issuance of SSARS No. 15	July 2007
110		SSARS No. 13 added	July 2005
110	.15	Amended by SSARS No. 17	May 2008
120		SSARS No. 14 added	July 2005
120	.18	Amended by SSARS No. 17	May 2008

<i>Section</i>	<i>Par.</i>	<i>Changes</i>	<i>Date of Change</i>
200	.01	Revised by SSARS No. 8	October 2000
200	.01	Amended by SSARS No. 17	February 2008
200	.02	Amended by SSARS No. 3	December 1981
200	.02	Revised by SSARS No. 8	October 2000
200	.05	Amended by SSARS No. 15	July 2007
200	.09	Amended by SSARS No. 5	July 1982
200	.09	Amended by SSARS No. 7	November 1992
200	.10	Amended by SSARS No. 7	November 1992
200	.16	Amended by SSARS No. 4	December 1981
200	.25-.26	Amended by SSARS No. 12	July 2005
200	.27	New paragraph added by SSARS No. 12; subsequent paragraphs renumbered	July 2005
200	.29	Amended by SSARS No. 17	February 2008
200	.30	Amended by SSARS No. 5	July 1982
200	.30	Amended by SSARS No. 7	November 1992
200	.33	Deleted by SSARS No. 8	October 2000
200	.33	Amended by SSARS No. 17	February 2008
200	.34-.35	Deleted by SSARS No. 8	October 2000
300	.01	Amended by SSARS No. 15	July 2007
300	.01-.02	Amended by SSARS No. 17	February 2008
300	.03	Amended by SSARS No. 5	July 1982
300	.03	Amended by SSARS No. 7	November 1992
300	.03	Amended by SSARS No. 17	February 2008
400	.01	Amended by SSARS No. 7	November 1992
400	.01	Amended by SSARS No. 9	November 2002
400	.01	Amended by SSARS No. 17	February 2008
400	.02	Amended by SSARS No. 9	November 2002
400	.03	Amended by SSARS No. 7	November 1992
400	.03-.06	Amended by SSARS No. 9	November 2002
400	.07	Deleted by SSARS No. 9	November 2002
400	.08-.09	Amended by SSARS No. 9	November 2002
400	.09	Amended by SSARS No. 15	July 2007
400	.10	Amended by SSARS No. 9	November 2002
400	.11-.12	New paragraphs added by issuance of SSARS No. 9	November 2002
500	...	Deleted by SSARS No. 7	November 1992

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