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Codification of Statements on Standards for Accounting and Review Services (Including Statements on Standards for Accounting and Review Services [Clarified]), Numbers 1-21, as of January 2016

American Institute of Certified Public Accountants (AICPA)

Codification of Statements on Standards for Accounting and Review Services

(Including Statements on Standards for Accounting and Review Services [Clarified])

Accounting and Review Services [AR]

Accounting and Review Services (Clarified) [AR-C]

Numbers 1 to 21

AS OF JANUARY 2016

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PREFACE

This publication, issued by the Accounting and Review Services Committee (ARSC), is a codification of Statements on Standards for Accounting and Review Services (SSARSs), and the related interpretations of SSARSs applicable to performing engagements to prepare financial statements and performing and reporting on compilation and review engagements.

SSARSs are issued by ARSC, the senior committee of the AICPA designated to promulgate standards under the "General Standards Rule" (ET sec. 1.310.001) and the "Compliance With Standards Rule" (ET sec. 1.300.001) of the AICPA Code of Conduct with respect to unaudited financial statements or other unaudited financial information of an entity that is not required to file financial statements with a regulatory agency in connection with the sale or trading of its securities in a public market. The "Compliance With Standards Rule" requires an AICPA member who performs engagements to prepare financial statements, compilations or reviews to comply with standards promulgated by the ARSC. Pursuant to paragraph .15 of AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*, an accountant must comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement is relevant. SSARSs use the word "must" to indicate an unconditional requirement. Paragraph .15 of AR-C section 60 further states that an accountant must comply with a presumptively mandatory requirement in all cases in which such a requirement is relevant, except in rare circumstances. SSARSs use the word "should" to indicate a presumptively mandatory requirement.

Paragraph .06 of AR-C section 60 defines interpretative publications as interpretations of SSARSs; exhibits to SSARSs; the AICPA Guide, *Compilation and Review Engagements*, guidance on reviews, compilations, and engagements to prepare financial statements included in AICPA Audit and Accounting Guides; and AICPA Statements of Position, to the extent that those statements are applicable to such engagements. Interpretative publications are not SSARSs. Interpretative publications are recommendations on the application of SSARSs in specific circumstances, including engagements for entities in specialized industries. An interpretative publications 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 SSARSs. Pursuant to paragraph .17 of AR-C section 60, the accountant is required to consider applicable interpretative publications in the performance of an engagement in accordance with SSARSs.

ACCOUNTING AND REVIEW
SERVICES COMMITTEE
Mike Fleming, Chair
Mike Glynn, Senior Technical Manager—
Audit and Attest Standards

WHAT'S NEW IN THIS EDITION

Section	Change
AR-C 9090.01–.02	Addition of Interpretation No. 1, "Considerations Related to Reviews Performed in Accordance With International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*," of AR-C section 90, *Review of Financial Statements*.

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HOW THIS PUBLICATION IS ORGANIZED

The AR sections include accounting and review services standards issued through SSARS No. 20, *Revised Applicability of Statements on Standards for Accounting and Review Services*. Superseded portions have been deleted, and all applicable amendments have been included. These sections are arranged as follows:

AR Cross-References to SSARSs

Framework for Performing and Reporting on Compilation and Review Engagements

Compilation of Financial Statements

Review of Financial Statements

Compilation of Specified Elements, Accounts, or Items of a Financial Statement

Compilation of Pro Forma Financial Information

Reporting on Comparative Financial Statements

Compilation Reports on Financial Statements Included in Certain Prescribed Forms

Communications Between Predecessor and Successor Accountants

Reporting on Personal Financial Statements Included in Written Personal Financial Plans

Exhibits

Appendixes

Topical Index

The AR Cross-References to SSARSs is a list of all issued SSARSs and a list of sources of sections in the current text.

The standards are divided into sections, each with its own section number. Each paragraph within a section is decimally numbered.

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 200 are numbered 9200, which directly follows section 200.

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

Exhibit A illustrates how an accountant might document expectations in a review engagement.

Exhibit B helps practitioners better understand the accounting concepts of going concern in performing a compilation or review engagement.

Exhibit C is deleted.

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

Appendix A is reserved.

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*.

The AR topical index uses the keyword method to facilitate reference to the pronouncements. The index is arranged alphabetically by topic and refers to major divisions, sections, and paragraph numbers.

The AR-C sections include clarified accounting and review services standards issued by SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*. These sections are arranged as follows:

AR-C Cross-References to SSARS

AR-C Introduction

General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services

Preparation of Financial Statements

Compilation Engagements

Review of Financial Statements

Appendixes

AR-C Topical Index

The AR-C Cross-References to SSARSs lists all issued SSARSs and the sources of sections created by SSARS No. 21 in the current text.

The AR-C Introduction describes the May 2010 ARSC project to revise and clarify all existing compilation and review standards in the Codification of Statements on Standards for Accounting and Review Services.

Accounting and review services interpretations are numbered in the 9000 series with the last two digits indicating the section to which the interpretation relates. Interpretations immediately follow their corresponding section. For example, interpretations related to section 90 are numbered 9090, which directly follows section 90.

The standards are divided into sections, each with its own section number. Each paragraph within a section is decimally numbered.

The AR-C appendixes are currently reserved.

The AR-C topical index uses the keyword method to facilitate reference to the pronouncements. The index is arranged alphabetically by topic and refers to major divisions, sections, and paragraph numbers.

AR Cross-References to SSARSs

Statements on Standards for Accounting and Review Services*

No.	Date Issued	Title	Section
1	Dec. 1978	Compilation and Review of Financial Statements [Superseded, December 2010, by SSARS No. 19.]	
2	**Oct. 1979**	**Reporting on Comparative Financial Statements**	**200**
3	**Dec. 1981**	**Compilation Reports on Financial Statements Included in Certain Prescribed Forms**[1]	**300**
4	**Dec. 1981**	**Communications Between Predecessor and Successor Accountants**[2]	**400**
5	July 1982	Reporting on Compiled Financial Statements [Deleted, November 1992, by SSARS No. 7.][3]	
6	**Sept. 1986**	**Reporting on Personal Financial Statements Included in Written Personal Financial Plans**	**600**
7	**Nov. 1992**	**Omnibus Statement on Standards for Accounting and Review Services—1992**[4]	
8	Oct. 2000	Amendment to Statement on Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements*	
9	**Nov. 2002**	**Omnibus Statement on Standards for Accounting and Review Services—2002**[5]	
10	May 2004	Performance of Review Engagements	
11	May 2004	Standards for Accounting and Review Services [Superseded, December 2010, by SSARS No. 19.][6]	

(continued)

* Pronouncements in effect are indicated in **boldface** type.

1 SSARS No. 3 amends section 200.02.

2 SSARS No. 4 amends section 200.16.

3 The provisions of SSARS No. 5 have been incorporated into section 300

4 SSARS No. 7 has been integrated to amend sections 200, 300, and 400; SSARS No. 7 also deletes SSARS No. 5.

5 SSARS No. 9 amends sections 400.01–.06 and 400.08–.10, deletes section 400.07, and adds sections 400.11–.12.

6 SSARS No. 11 amends section 200.17.

No.	*Date Issued*	*Title*	*Section*
12	**July 2005**	**Omnibus Statement on Standards for Accounting and Review Services—2005**[7]	
13	**July 2005**	**Compilation of Specified Elements, Accounts, or Items of a Financial Statement**	**110**
14	**July 2005**	**Compilation of Pro Forma Financial Information**	**120**
15	**July 2007**	**Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services**[8]	
16	Dec. 2007	Defining Professional Requirements in Statements on Standards for Accounting and Review Services [Superseded, December 2010, by SSARS No. 19.]	
17	**Feb. 2008**	**Omnibus Statement on Standards for Accounting and Review Services—2008**[9]	
18	Feb. 2009	Applicability of Statements on Standards for Accounting and Review Services	
19	**Dec. 2009**	**Compilation and Review Engagements**[10]	**60, 80, and 90**
20	**Feb. 2011**	**Revised Applicability of Statements on Standards for Accounting and Review Services**[11]	

[7] SSARS No. 12 amends sections 200.25–.26 and adds section 200.27 (subsequent paragraphs and footnotes have been renumbered accordingly).

[8] SSARS No. 15 amends section 200.05, section 300.01, and section 400.09.

[9] SSARS No. 17 amends section 110.15; section 120.18; sections 200.01, .29, and .33; sections 300.01–.03; and section 400.01.

[10] SSARS No. 19 supersedes sections 20, 50, and 100.

[11] SSARS No. 20 amends section 90.01.

Sources of Sections in Current Text

AR Section	*Contents*	*Source*
60	Framework for Performing and Reporting on Compilation and Review Engagements	SSARS No. 19
80	Compilation of Financial Statements	SSARS No. 19
90	Review of Financial Statements	SSARS No. 19
110	Compilation of Specified Elements, Accounts, or Items of a Financial Statement	SSARS No. 13
120	Compilation of Pro Forma Financial Information	SSARS No. 14
200	Reporting on Comparative Financial Statements	SSARS No. 2
300	Compilation Reports on Financial Statements Included in Certain Prescribed Forms	SSARS No. 3
400	Communications Between Predecessor and Successor Accountants	SSARS No. 4
600	Reporting on Personal Financial Statements Included in Written Personal Financial Plans	SSARS No. 6

AR Section

STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

Statements on Standards for Accounting and Review Services (SSARSs) are issued by the AICPA Accounting and Review Services Committee (ARSC), the senior committee of the AICPA designated to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of a nonpublic entity. Council has designated ARSC as a body to establish technical standards under the "Compliance With Standards Rule" of the AICPA Code of Professional Conduct (ET sec. 1.310.001).

Interpretations are issued to provide guidance on the application of SSARSs. 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 SSARSs. 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

Superseded, December 2010, by the issuance of SSARS No. 19.

AR Section 50

Standards for Accounting and Review Services

Superseded, December 2010, by the issuance of SSARS No. 19.

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 SSARSs.

Relevant Definitions

.04 Terms defined for purposes of SSARSs 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 [1] 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

[*] In January 2013, the Professional Ethics Executive Committee adopted a provision in the "Scope and Applicability of Nonattest Services" interpretation (ET sec. 1.295.010) under the "Independence Rule" (ET sec. 1.200.001) of the AICPA Code of Professional Conduct. This provision provides, among other things, that financial statement preparation is considered outside the scope of the attest engagement and, therefore, constitutes a nonattest service subject to the requirements of the "Nonattest Services" subtopic (ET sec. 1.295). The provision is effective for engagements covering periods beginning on or after December 15, 2014. [Footnote added, October 2013, to reflect conforming changes necessary due to the revision of Ethics Interpretation No. 101-3. Footnote revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

[1] For purposes of the Statements on Standards for Accounting and Review Services, 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.

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 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, *Review of Financial Statements*. SSARSs provide a measure of quality and the objectives to be achieved in both a compilation and review engagement.

.16 The "Compliance With Standards Rule" (ET sec. 1.310.001), 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. [Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

.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 SSARSs; appendixes to 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. Interpretative publications are not standards for accounting and review services. Interpretative publications are recommendations on the application of SSARSs 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 SSARSs.

.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 SSARSs 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 SSARSs. 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 SSARSs 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 SSARSs, 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 public practice, as defined by the AICPA code; and intended users of the financial statements or financial information. [Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

.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 public practice, the issuance of a written communication or report under SSARSs would be inappropriate. [Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

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.[2]

.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 Public Practice

.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

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[2] 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.

[*] See footnote * in paragraph .04 in this chapter.

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. [Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

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.

.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.[3] 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

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[3] As further described in paragraphs .22–.24 of section 80, *Compilation of Financial Statements*, 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.

- 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 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.

AR Section 80

Compilation of Financial Statements

Issue date, unless otherwise indicated: December 2009

See section 9080 for interpretations of this section.

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[1] 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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[1] See paragraph .29 of QC section 10, *A Firm's System of Quality Control*. [Footnote revised, December 2012, to reflect conforming changes necessary due to the issuance of SQCS No. 8.]

- 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 Statements on Standards for Accounting and Review Services (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, 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,[2] or illegal acts.[3]
- 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.[4] 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

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[2] For purposes of the SSARSs, *fraud* is an intentional act that results in a misstatement in compiled financial statements.

[3] For purposes of the SSARSs, *illegal acts* are violations of laws or government regulations, excluding fraud.

[4] 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.

- 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 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 SSARSs.

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 SSARSs 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 other comprehensive basis of accounting (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.[5] 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

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[5] 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, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*, 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.

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:

- *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 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[6] or regulatory provisions that are not in conformity with an applicable financial reporting framework.

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

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 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.[7] 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

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[7] 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.

financial statements. In such circumstances, the accountant should follow the guidance in paragraphs .25–.26.

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 [8]

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.[9] 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

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[8] 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.

[9] See footnote 8.

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 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 SSARSs 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 SSARSs, 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.

.63

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,

____

[*Signature of accountant*]

Acknowledged:

XYZ Company

____

President

____

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,

____

[*Signature of accountant*]

Acknowledged:

XYZ Company

____

President

____

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 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. During our compilation, I (we) did become aware of a departure (certain departures) from accounting principles generally accepted in the United States of America that is (are) described in the following paragraph.

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.

or

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.[1]

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

[*Date*]

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[1] If a statement of cash flows is not presented, the first paragraph of the accountant's compilation report should be modified accordingly.

AR Section 9080

Compilation of Financial Statements: Accounting and Review Services Interpretations of Section 80

1. Reporting When There Are Significant Departures From the Applicable Financial Reporting Framework

.01 *Question*—When the financial statements include significant departures from the applicable financial reporting framework, may the accountant modify his or her standard report in accordance with paragraphs .27–.29 of section 80, *Compilation of Financial Statements*, to include a statement that the financial statements are not in conformity with the applicable financial reporting framework?

.02 *Interpretation*—No. Including such a statement in the accountant's compilation report would be tantamount to expressing an adverse opinion on the financial statements as a whole. Such an opinion can be expressed only in the context of an audit engagement.

.03 However, paragraph .25 of section 80 states that an accountant may emphasize, in any report on financial statements, a matter disclosed in the financial statements. The accountant may wish, therefore, to emphasize the limitations of the financial statements in a separate paragraph of his or her compilation report, depending on his or her 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 or her report (see illustrations in Compilation Exhibit B, "Illustrative Compilation Reports"), might read as follows (the illustration assumes that the accountant is reporting on financial statements in which there are significant departures from accounting principles generally accepted in the United States of America):

> Because the significance and pervasiveness of the matters previously discussed makes it difficult to assess their impact on the financial statements 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 accounting principles generally accepted in the United States of America.

.04 *Interpretation*—Inclusion of such a separate paragraph in the accountant's compilation 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.

[Issue Date: August 1981; Revised: November 2002; Revised: May 2004; Revised: July 2005; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 7 to section 100).]

2. Reporting on Tax Returns

.05 *Question*—May an accountant comply with a request from a nonissuer to issue a compilation 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*?

.06 *Interpretation*—Yes. Although paragraph .01 of section 80 states that the section establishes standards and provides guidance on compilations of financial statements and financial information included in a tax return is not included in the definition of financial statements, an accountant may decide to accept an engagement to issue a compilation report on such a return. In that case, the performance and reporting requirements of section 80 would apply.

[Issue Date: November 1982; Revised: February 2008; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 10 to section 100).]

3. Additional Procedures Performed in a Compilation Engagement

.07 *Question*—If an accountant performs procedures customarily performed in a review or audit but not in a compilation, is the accountant required to change the engagement to a review or an audit?

.08 *Interpretation*—No. Paragraph .13 of section 80 states that in a compilation engagement 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 is not precluded from making inquiries or performing additional procedures.

.09 The wording of confirmation requests or other communications related to additional procedures performed in the course of a compilation 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; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 13 to section 100).]

4. Differentiating a Financial Statement Presentation From a Trial Balance

.10 *Question*—Paragraph .01 of section 80 states that the accountant is required to comply with the provisions of section 80 whenever he or she is engaged to report on compiled financial statements or submits financial statements to a client or third parties. What attributes should an accountant consider when differentiating a financial statement from a trial balance to determine if he or she is required to comply with the provisions of section 80?

.11 *Interpretation*—The accountant may consider, among other matters, the following attributes when determining whether a financial presentation is a financial statement or 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 the following:

  — Balance Sheet

  — Statement of Income or Statement of Operations

  — 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

  — Statement of Activities

  — Summary of Operations

  — Statement of Operations by Product Lines

  — Statement of Cash Receipts and Disbursements

  Examples of typical titles for trial balance presentations are as follows:

  — Trial Balance

  — Working Trial Balance

  — Adjusted Trial Balance

  — 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:

  Assets = Liabilities + Owners' Equity

  The elements of the income statement and their relationship to net income are presented based on the following basic example equation:

  Revenues – Expenses + Gains – Losses = 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.

.12 The accountant's use of judgment is important when considering these attributes to determine whether the financial presentation constitutes a financial statement or a trial balance. When making this determination, the accountant may 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, the accountant, at a minimum, should compile the financial statements in accordance with section 80 when he or she submits such financial statements to his or her client or third parties.

[Issue Date: September 1990; Revised: October 2000; Revised: February 2008; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 15 to section 100).]

5. Submitting Draft Financial Statements

.13 *Question*—Accountants frequently submit draft financial statements (*a*) because information needed to complete a compilation of the financial statements will not be available until a later date, or (*b*) 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 section 80?

.14 *Interpretation*—Except in those instances in which the financial statements are not expected to be used by a third party, as permitted under paragraphs .22–.24 of section 80, an accountant is precluded from submitting draft financial statements unless he or she intends to submit those financial statements in final form accompanied by an appropriate compilation report prescribed by section 80. However, as long as the accountant intends to issue a compilation report on 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 to comply with the reporting provisions of section 80 with respect to those draft financial statements. In the rare circumstance in which 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 financial statements in final form accompanied by an appropriate compilation report.

[Issue Date: September 1990; Revised: October 2000; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 17 to section 100).]

6. Reporting When Financial Statements Contain a Departure From Promulgated Accounting Principles That Prevents the Financial Statements From Being Misleading

.15 *Question*—The "Accounting Principles Rule" (ET sec. 1.320.001) 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 generally accepted accounting principles 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 generally accepted accounting principles, 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 .27–.29 of section 80 do not address the "Accounting Principles Rule" circumstances. When the circumstances contemplated by the "Accounting Principles Rule" are present, how should the accountant report on the information described in the "Accounting Principles Rule?"

.16 *Interpretation*—The "Accounting Principles Rule" does not apply to engagements to report on a compiled financial statements. Accordingly, when the accountant is reporting on a compiled financial statements and is confronted with the circumstances contemplated by the "Accounting Principles Rule," the guidance in paragraphs .27–.29 of section 80 pertaining to departures from generally accepted accounting principles (GAAP) should be followed.

[Issue Date: February 1991; Revised: October 2000; Revised: November 2002; Revised: May 2004; Revised: July 2005; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 19 to section 100); Revised: January 2015.]

7. Applicability of Statements on Standards for Accounting and Review Services to Litigation Services

.17 *Question*—When are litigation services excluded from the applicability of Statements on Standards for Accounting and Review Services (SSARSs)?

.18 *Interpretation*—SSARSs 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" 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 the "General Standards Rule" (ET sec. 1.300.001).

.19 *Question*—When do SSARSs apply to litigation service engagements?

.20 *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; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 20 to section 100); Revised: January 2015.]

8. Applicability of Statements on Standards for Accounting and Review Services When Performing Controllership or Other Management Services

.21 *Question*—If the accountant is in public practice and provides an entity with controllership or other management services that entail the submission of financial statements, is the accountant required to follow the requirements of section 80?

.22 *Interpretation*—If the accountant is in public practice as defined in ET section 0.400 of the AICPA Code of Professional Conduct 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 section 80, including any requirement to disclose a lack of independence.

.23 If the accountant is in public practice and is also a stockholder, partner, director, officer, or employee of the entity, the accountant may either (*a*) comply with the requirements of section 80, or (*b*) communicate, preferably in writing, the accountant's relationship to the entity (for example, stockholder, partner, director, officer, or employee). 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.

.24 If an accountant is not in public practice, the issuance of a report under SSARSs would be inappropriate; however, the previously mentioned communication may be used.

[Issue Date: July 2002; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 21 to section 100); Revised: January 2015.]

9. Use of the Label "Selected Information—Substantially All Disclosures Required by [the applicable financial reporting framework] Are Not Included" in Compiled Financial Statements

.25 *Question*—Can an accountant label notes to the financial statements "Selected Information—Substantially All Disclosures Required by [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America")*] Are Not Included" when the client includes more than a few required disclosures?

.26 *Interpretation*—No. As discussed in paragraph .20 of section 80, 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 [*identify the applicable financial reporting framework (for example "accounting principles generally accepted in the United States of America")*] Are Not Included."

.27 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 report like any other departure from the applicable financial reporting framework, and the nature of the departure and its effects, if known, should be disclosed in accordance with paragraphs .27–.29 of section 80. The label "Selected Information—Substantially All Disclosures Required by [*identify the applicable financial reporting framework (for example "accounting principles generally accepted in the United States of America")*] Are Not Included" is not intended to be used for the omission of (intentionally or unintentionally) one or more specific disclosures. In determining whether use of the label is appropriate, the accountant needs to apply professional judgment to all the facts and circumstances.

[Issue Date: December 2002; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 22 to section 100).]

10. Omission of the Display of Comprehensive Income in Compiled Financial Statements

.28 *Question*—When an element of comprehensive income is present, can the display of comprehensive income be omitted when issuing a compilation report on financial statements that omit substantially all disclosures required by accounting principles generally accepted in the United States of America?

.29 *Interpretation*—Yes. Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 220, *Comprehensive Income*, requires the display of comprehensive income when a full set of financial statements is presented in conformity with accounting principles generally accepted in the United States of America. However, the display of comprehensive income may be omitted by identifying the omission in the compilation report or, if the engagement is to compile financial statements that are not expected to be used by a third party and the accountant does not report on those financial statements, in the engagement letter. The following is suggested modified wording (shown in *italic*) to the paragraph in the compilation report:

> Management has elected to omit substantially all the disclosures, (the statement of cash flows, if applicable,) *and the display of comprehensive income* required by accounting principles generally accepted in the United States of America. If the omitted disclosures, (the statement of cash flows, if applicable,) *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.

.30 If the accountant compiles financial statements that include substantially all disclosures required by accounting principles generally accepted in the United States of America but omit the display of comprehensive income, the omission is a departure from accounting principles generally accepted in the United States of America.

.31 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 accounting principles generally accepted in the United States of America and follow the guidance in paragraphs .27–.29 of section 80.

[Issue Date: September 2003; Revised: May 2004; Revised: July 2005; Revised: June 2009; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 25 to section 100).]

11. Special-Purpose Financial Statements to Comply With Contractual Agreements or Regulatory Provisions

.32 *Question*—An accountant may be asked to compile special-purpose financial statements prepared to comply with a contractual agreement or regulatory provision that specifies a special basis of presentation. In most 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 report when reporting on these compiled special-purpose financial statements?

.33 *Interpretation*—An accountant who is asked to compile special-purpose financial statements prepared to comply with a contractual agreement or a regulatory provision that specifies a special basis of presentation may issue a compilation report on those financial statements in accordance with section 80 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 (OCBOA), 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 OCBOA.

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 OCBOA

.34 An entity may engage an accountant to compile 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 an 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.

.35 When the accountant submits compiled 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 an OCBOA, the accountant's report should be modified to include a separate 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 an 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

.36 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. I (we) have not audited or reviewed the accompanying statement of net assets sold and, accordingly, do not express an opinion or provide any assurance about whether the statement of net assets sold is in accordance with the purchase agreement described in Note A.
>
> Management (owners) is (are) responsible for the preparation and fair presentation of the statement of net assets sold in accordance with the purchase agreement described in Note A and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the statement of net assets sold.
>
> 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.
>
> 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*] 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

.37 An entity may engage an accountant to compile 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.

.38 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 "having substantial support," even though the criteria are definite.

.39 When the accountant submits compiled 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 an OCBOA, the accountant's report should be modified to include a separate 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 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.

.40 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. 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 acquisition agreement between ABC Company and XYZ Company as discussed in Note A.
>
> Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the acquisition agreement between ABC Company and XYZ Company as described in Note A 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.

> 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*] and is not intended to be and should not be used by anyone other than these specified parties.

[Issue Date: December 2006; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 28 to section 100).]

12. Reporting on an Uncertainty, Including an Uncertainty About an Entity's Ability to Continue as a Going Concern

.41 *Question*—How should an accountant modify the standard compilation report when, during the performance of compilation 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?

.42 *Interpretation*—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. 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 .40–.43 of section 80 with respect to his or her consideration of the entity's ability to continue as a going concern during the performance of compilation procedures.

.43 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-matter paragraph with respect to the uncertainty in the accountant's compilation 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.

.44 *Question*—If the accountant, while performing a compilation, 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?

.45 *Interpretation*—Disclosure requirements with respect to uncertainties are included in FASB ASC 275, 450, and other authoritative accounting literature. If the accountant determines that the disclosure of the uncertainty is not in accordance with the applicable financial reporting framework, he or she should follow the guidance in paragraphs .27–.29 of section 80.

.46 If the accountant concludes that management's disclosure of the uncertainty is in accordance with the applicable financial reporting framework but further decides to include an emphasis-of-matter paragraph with respect to the uncertainty in the accountant's compilation report, he or she may use the following language (the following is assuming that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America):

> 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.

.47 *Question*—Paragraph .20 of section 80 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 an applicable financial reporting framework, provided the omission of substantially all disclosures was not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements, and the accountant includes a paragraph in the accountant's compilation report regarding the omission of substantially all disclosures. Should disclosure of an uncertainty be considered so significant that it also could never be omitted?

.48 *Interpretation*—No. The user is adequately warned of the limitations of the financial statements by the report language required by paragraph .20 of section 80.

[Issue date: February 2007; Revised: February 2008; Amended: December 2008; Revised: June 2009; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 29 to section 100)]

13. Compilations of Financial Statements Prepared in Accordance With International Financial Reporting Standards

.49 *Question*—The International Accounting Standards Board (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 the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct as of May 18, 2008. As a result, how would an accountant apply the reporting guidance in section 80 when engaged to compile financial statements presented in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB?

.50 *Interpretation*—A report illustration of how an accountant would apply the reporting guidance in section 80 when reporting on financial statements presented in accordance with IFRSs is as follows:

Accountant's Compilation Report

> [*Appropriate Salutation]*
>
> I (we) have compiled the accompanying statements of financial position of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of comprehensive income, changes in equity, and cash flows for the years 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 International Financial Reporting Standards as issued by the International Accounting Standards Board.
>
> Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards

> Board 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]*

When the accountant compiles financial statements that omit substantially all disclosures but are otherwise in conformity with IFRSs 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.

.51 *Question*—Unlike accounting principles generally accepted in the United States of America as issued by FASB, IFRSs require an entity to disclose comparative information in respect of the previous comparative period for all amounts presented in the current year's financial statements. When the accountant compiles financial statements that omit prior year information, should such omission be disclosed in the accountant's compilation report as a departure from IFRSs as issued by the IASB in accordance with paragraphs .27–.29 of section 80?

.52 *Interpretation*—Yes. Because IFRSs require an entity to disclose comparative information in respect of the previous comparative period for all amounts presented in the current year's financial statements, the failure to include such information in financial statements would be a departure from GAAP. An example of a paragraph that may be added to the accountant's compilation report is as follows:

> Comparative information with respect to the year ended December 31, 20XX-1 has not been presented. International Financial Reporting Standards [or *IFRSs for SMEs*] as issued by the International Accounting Standards Board require an entity to disclose comparative information in respect of the previous comparative period for all amounts presented in the current year's financial statements.

When the accountant compiles financial statements that omit substantially all disclosures and comparative information in respect of the previous comparative period but are otherwise in conformity with IFRSs 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) and comparative financial information as of and for the year ended December 31, 20XX-1 required by International Financial Reporting Standards [or *IFRSs for SMEs*] as issued by the International Accounting Standards Board. If the omitted disclosures, statement, and comparative

financial information 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.

[Issue Date: May 2008; Revised: June 2010; Revised: August 2010; Revised: December 2010 (formerly Interpretation No. 30 to section 100); Revised: January 2015.]

14. Compilations of Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country

.53 *Question*—An accountant may be engaged to compile financial statements that have been prepared in conformity with a financial reporting framework generally accepted in another country (including financial statements prepared in accordance with a jurisdictional variation of IFRSs such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with IFRSs as issued by the IASB). How should an accountant apply the reporting requirements of section 80 when reporting on those financial statements?

.54 *Interpretation*—If the financial statements are intended for use only outside of the United States of America, the accountant may report using the standard form of U.S. compilation report modified as appropriate to identify the applicable financial reporting framework, or alternatively, the accountant may report using the standard compilation report form and content of the other country. (See Interpretation No. 15 with respect to Considerations Related to Compilations Performed in Accordance with International Standard on Related Services [ISRS] 4410 (Revised), *Compilation Engagements*).

.55 The standard compilation report used in another country, even when it appears similar to that used in the United States of America, may convey a different meaning and entail a different responsibility on the part of the accountant due to custom or culture. Issuing a standard compilation report of another country may require an understanding of local laws. When issuing the accountant's standard compilation report of another country, the accountant is required to obtain an understanding of applicable legal responsibilities, in addition to the compilation standards and accounting principles generally accepted in the other country, as indicated in paragraph .11 of section 80. Therefore, depending on the nature and extent of the accountant's knowledge and experience, the accountant may wish to consult with persons having expertise in the reporting practices of the other country and associated legal responsibilities to obtain the understanding needed to issue that country's standard compilation report.

.56 If the accountant's report is intended for use in the United States of America, the reporting requirements described in paragraphs .16–.19 of section 80 would apply. Additionally, paragraph .31 of section 80 states that a need for restriction on the use of the 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 context in which it was intended to be used. Because of the nature of the basis of presentation of the financial statements there is a presumption that the report would be misunderstood or taken out of context in which it was intended to be used. In such instances, the accountant may use the following form of report:

<u>Accountant's Compilation Report</u>

[*Appropriate Salutation]*

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. 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 financial reporting framework generally accepted in another country, including identification of the nationality of the framework*].

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with [*the financial reporting framework generally accepted in another country, including identification of the nationality of the framework*] 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.

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

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

[*Date*]

.57 When the financial statements will be used both outside of the United States of America as well as in the United States of America, nothing precludes the accountant from issuing two reports—a report to be used only outside of the United States of America and another report to be used in the United States of America.

[Issue Date: May 2008; Revised: June 2010; Revised: August 2010; Revised: December 2010 (formerly Interpretation No. 30 to section 100); Revised: December 2012; Revised, February 2015.]

15. Considerations Related to Compilations Performed in Accordance With International Standard on Related Services 4410 (Revised), *Compilation Engagements*, Issued by the International Auditing and Assurance Standards Board

.58 *Question*—May a U.S. accountant perform a compilation of historical financial statements of a U.S. entity[1] in accordance with ISRS 4410 (Revised) issued by the International Auditing and Assurance Standards Board (IAASB)? The financial statements may have been prepared in accordance with IFRSs or accounting principles generally accepted in the United States of America.

.59 *Interpretation*—Yes. An accountant performing a compilation of historical financial statements of a U.S. entity is required to follow the compilation standards as promulgated by the AICPA's Accounting and Review Services

[1] A *U.S. entity* is an entity that is either organized or domiciled in the United States of America.

Committee. However, those standards do not prohibit an accountant from indicating that the compilation also was conducted in accordance with another set of compilation standards. In an engagement to compile the historical financial statements in accordance with ISRS 4410 (Revised), the accountant may perform the compilation in accordance with SSARSs as well as ISRS 4410 (Revised). Such a compilation report may read as follows:

> 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. 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 International Financial Reporting Standards as issued by the International Accounting Standards Board.
>
> Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board 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 and in accordance with the International Standard on Related Services (ISRS 4410 [Revised]) issued by the International Auditing and Assurance Standards Board applicable to compilation engagements. 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.

.60 If the report is for use only outside of the United States of America, the accountant is still required to apply SSARSs, except for requirements related to report form and content.

[Issue Date: May 2008; Revised: June 2010; Revised: August 2010; Revised: December 2010 (formerly Interpretation No. 30 to section 100); Revised: December 2012; Revised, January 2015.]

16. Preparation of Financial Statements for Use by an Entity's Auditors

.61 *Question*—Paragraph .22 of section 80 states "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." In the situation in which a client engages an accountant, other than its auditor, to prepare unaudited financial statements on behalf of management and 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?

.62 *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 paragraphs .22–.24 of section 80 are applicable.

[Issue Date: December 2008; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 31 to section 100).]

17. Required Supplementary Information That Accompanies Compiled Financial Statements

.63 *Question*—Paragraph .53 of section 80 addresses situations when the basic financial statements are accompanied by information presented for supplementary analysis purposes. Certain information presented for supplementary analysis purposes is required by a body designated by the AICPA Council to establish GAAP pursuant to the "Compliance With Standards Rule" and the "Accounting Principles Rule"[2] (hereinafter referred to as "required supplementary information"). Examples of required supplementary information that may accompany compiled financial statements include the following:

- With respect to common interest realty associations, estimates of current or future costs of major repairs and replacements of common property that will be required in the future as required by FASB ASC 972-235-50-3
- Management's discussion and analysis and budgetary comparison statements as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

Is the accountant required to apply procedures to required supplementary information that accompanies compiled financial statements?

.64 *Interpretation*—No. SSARSs do not require the accountant to apply procedures to any information presented for supplementary analysis purposes, including required supplementary information. However, nothing precludes the accountant from compiling the required supplementary information if engaged to do so.

.65 *Question*—Paragraph .53 of section 80 states that when the basic financial statements are accompanied by information presented for supplementary analysis purposes, the accountant should indicate the degree of responsibility, if any, he or she is taking with respect to such information. How may an accountant modify the accountant's compilation report to refer to the required supplementary information and explain the circumstances regarding its presentation?

.66 *Interpretation*—The accountant may modify the accountant's compilation report by including a separate paragraph that refers to the required supplementary information and explains the circumstances regarding its presentation. That separate paragraph would be presented after the paragraph describing the accountant's responsibility and may read as follows:

The Required Supplementary Information Is Included and the Accountant Did Not Compile the Required Supplementary Information

> [*Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that

[2] The bodies designated by the AICPA Council to establish professional standards with respect to financial accounting and reporting principles pursuant to these rules are the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Federal Accounting Standards Advisory Board, and the International Accounting Standards Board.

[*identify the required supplementary information*] on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [*identify the designated accounting standard setter*] who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by me (us) and, accordingly, I (we) do not express an opinion or provide any assurance on it.

The Required Supplementary Information Is Included, the Accountant Compiled the Required Supplemental Information and No Material Departures From the Prescribed Guidelines Regarding the Required Supplementary Information Have Been Identified

[*Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that [*identify the required supplementary information*] on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [*identify the designated accounting standard setter*] who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information has been compiled by me (us) without audit or review and, accordingly, I (we) do not express an opinion or provide any assurance on it.

All Required Supplementary Information Omitted

Management has omitted [*describe the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by [*identify the designated accounting standard setter*] who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context.

Some Required Supplementary Information is Omitted and Some Is Presented in Accordance With the Prescribed Guidelines Regarding the Required Supplementary Information

[*Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that [*identify the included supplementary information*] be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [*identify designated accounting standard setter*] who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by me (us) and, accordingly, I (we) do not express an opinion or provide any assurance on it.

Management has omitted [*describe the missing required supplementary information*] that [*identify the applicable financial reporting framework*] require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standard* setter] who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Material Departures From the Prescribed Guidelines Regarding the Required Supplementary Information Were Identified While Compiling the Required Supplementary Information

> [*Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that the [*identify the supplementary information*] on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [*identify designated accounting standard setter*] who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was compiled by me (us) without audit or review and, accordingly, I (we) do not express an opinion or provide any assurance on it. However, during my (our) compilation, I (we) did become aware of the following material departures from the prescribed guidelines regarding the required supplementary information [*identify the required supplementary information and describe the material departures from the prescribed guidelines regarding the required supplementary information*].

.67 *Question*—When required supplementary information is omitted from financial statements that omit substantially all the disclosures required by accounting principles generally accepted in the United States of America (U.S. GAAP), may the accountant combine the paragraph discussing the omission of substantially all the disclosures, as required by paragraph .20 of section 80, with the paragraph referring to the omission of the required supplementary information?

.68 *Interpretation*—No. Because required supplementary information is not a part of the basic financial statements and the omitted disclosures (and the statement of cash flows, if applicable) are required by U.S. GAAP to be included in the basic financial statements, the report elements required by paragraphs .20 and .53 of section 80 are not compatible.

[Issue Date: October 2011; Revised: January 2015.]

AR Section 90

Review of Financial Statements

Issue date, unless otherwise indicated: December 2009

See section 9090 for interpretations of this section.

Source: SSARS No. 19; SSARS No. 20.

.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 either

   i. has been engaged to audit the entity's current year financial statements, or

   ii. audited the entity's latest annual financial statements and, when it is expected that the current year financial statements will be audited, the appointment of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review.

c. The entity 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 AU-C section 930, *Interim Financial Information*. [As amended, effective for reviews of financial statements for periods beginning after December 15, 2011, by SSARS No. 20. Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

.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[1] and should document the understanding through a written communication with management. Such an understanding reduces the risk that either the accountant or

[1] See paragraph .29 of QC section 10, *A Firm's System of Quality Control*. [Footnote revised, December 2012, to reflect conforming changes necessary due to the issuance of SQCS No. 8.]

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 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,[2] or illegal acts.[3]
- 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.[4] 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.

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

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[2] For purposes of this section, *fraud* is an intentional act that results in a misstatement in reviewed financial statements.

[3] For purposes of this section, *illegal acts* are violations of laws or government regulations, excluding fraud.

[4] 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.

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[5]

.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.

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

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[5] 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.

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.[6] 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.[7] 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."

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[6] The accountant is not precluded from obtaining representations regarding services performed in addition to the review engagement.

[7] See paragraphs .20–.24 of section 200, *Reporting on Comparative Financial Statements*.

.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 SSARSs

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 SSARSs 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, *Compilation of Financial Statements*, 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 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[8] 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

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

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 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.[9] 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.

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[9] 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.

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.

.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, *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 .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.

.70

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 that 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,

____

[*Signature of accountant*]

Acknowledged:

XYZ Company

____

President

____

Date

.71

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*][1]

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.[2]

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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[1] 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.

[2] 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*.[3]
    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*

[3] 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.[4]
16. We have responded fully and truthfully to all inquiries made to us by you during your review.

____

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

____

[*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.

[4] 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

Condition	***Illustrative Examples***
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) *Accounting Standards Codification* (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.	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. 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. 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, *Consolidation*.

General

Condition	***Illustrative Examples***
	We have advised you of all transactions with identified VIEs, potential VIEs, or entities afforded the scope exceptions of FASB ASC 810. 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. 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. 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. 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. 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 • The accounting required to consolidate the entity
The work of a specialist has been used by the entity.	We agree with the findings of specialists in evaluating the [*describe assertion*] 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.

(continued)

Assets

Condition	***Illustrative Examples***
Cash 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.
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: [*describe methods and significant assumptions used to determine fair values of financial instruments*]. 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: 1. The extent, nature, and terms of financial instruments with off-balance-sheet risk 2. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments 3. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments

Assets

Condition	***Illustrative Examples***
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 Unusual considerations are involved in determining the application of equity accounting.	[*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*:] • 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. • 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.
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.	The valuation allowance has been determined pursuant to the provisions of FASB ASC 740, *Income Taxes*, 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*.] or 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.

(continued)

Liabilities

Condition	*Illustrative Examples*
Debt Short term debt could be refinanced on a long term basis and management intends to do so.	The company has excluded short-term obligations totaling $[*amount*] from current liabilities because it intends to refinance the obligations on a long-term basis. [*Complete with appropriate wording detailing how amounts will be refinanced as follows:*] • The company has issued a long term obligation [*debt security*] 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. • The company has the ability to consummate the refinancing, by using the financing agreement referred to in note [*X*] to the financial statements.
Tax-exempt bonds have been issued.	Tax-exempt bonds issued have retained their tax-exempt status.
Taxes Management intends to reinvest undistributed earnings of a foreign subsidiary.	We intend to reinvest the undistributed earnings of [*name of foreign subsidiary*].
Contingencies Estimates and disclosures have been made of environmental remediation liabilities and related loss contingencies.	Provision has been made for any material loss that is probable from environmental remediation liabilities associated with [*name of site*]. 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.
Agreements may exist to repurchase assets previously sold.	Agreements to repurchase assets previously sold have been properly disclosed.
Pension and Postretirement Benefits An actuary has been used to measure pension liabilities and costs.	We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Liabilities

Condition	*Illustrative Examples*
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

Condition	*Illustrative Example*
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.

(continued)

Income Statement

Condition	*Illustrative Examples*
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.

.72

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*] [1]

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.

____

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

____

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

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[1] 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.

.73

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 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*]

AR Section 9090

Review of Financial Statements: Accounting and Review Services Interpretations of Section 90

1. Reporting When There Are Significant Departures From the Applicable Financial Reporting Framework

.01 *Question*—When the financial statements include significant departures from the applicable financial reporting framework, may the accountant modify his or her standard report in accordance with paragraphs .34–.36 of section 90, *Review of Financial Statements*, to include a statement that the financial statements are not in conformity with the applicable financial reporting framework?

.02 *Interpretation*—No. Including such a statement in the accountant's review report would be tantamount to expressing an adverse opinion on the financial statements 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 results of engagement as required by paragraph .28(f) of section 90.

.03 However, paragraph .33 of section 90 states that an accountant may emphasize, in any report on financial statements, a matter disclosed in the financial statements. The accountant may wish, therefore, to emphasize the limitations of the financial statements in a separate paragraph of his or her review report, depending on his or her 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 or her report (see illustrations in Review Exhibit D, "Illustrative Review Reports"), might read as follows (the illustration assumes that the accountant is reporting on financial statements in which there are significant departures from accounting principles generally accepted in the United States of America):

> Because the significance and pervasiveness of the matters previously discussed makes it difficult to assess their impact on the financial statements 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 accounting principles generally accepted in the United States of America.

.04 Inclusion of such a separate paragraph in the accountant's 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.

[Issue Date: August 1981; Revised: November 2002; Revised: May 2004; Revised: July 2005; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 7 to section 100).]

2. Reporting on Tax Returns

.05 *Question*—May an accountant comply with a request from a nonissuer to issue a 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*?

.06 *Interpretation*—Yes. Although paragraph .01 of section 90 states that the section establishes standards and provides guidance on reviews of financial statements and financial information contained in a tax return is not included in the definition of financial statements, an accountant may decide to accept an engagement to issue a review report on such a return. In that case, the performance and reporting requirements of section 90 would apply.

[Issue Date: November 1982; Revised: February 2008; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 10 to section 100).]

3. Additional Procedures Performed in a Review Engagement

.07 *Question*—If an accountant performs procedures customarily performed in an audit but not in a review, is the accountant required to change the engagement to an audit?

.08 *Interpretation*—No. Paragraph .07 of section 90 states that 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, paragraph .07 further states that 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.

.09 The wording of confirmation requests or other communications related to additional procedures performed in the course of a 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; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 13 to section 100).]

4. Submitting Draft Financial Statements

.10 *Question*—Accountants frequently submit draft financial statements (*a*) because information needed to complete a review of the financial statements will not be available until a later date or (*b*) 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 to management without intending to comply with the reporting provisions of section 90?

.11 *Interpretation*—No. An accountant is precluded from submitting draft financial statements unless he or she intends to submit those financial statements in final form accompanied by an appropriate review report prescribed by section 90. However, as long as the accountant intends to issue a review report on 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 to comply with the reporting provisions of section 90 with respect to those draft financial statements. In the rare circumstance in which 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 financial statements in final form accompanied by an appropriate review report.

[Issue Date: September 1990; Revised: October 2000; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 17 to section 100).]

5. Reporting When Financial Statements Contain a Departure From Promulgated Accounting Principles That Prevents the Financial Statements From Being Misleading

.12 *Question*—The "Accounting Principles Rule" (ET sec. 1.320.001) 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 generally accepted accounting principles 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 generally accepted accounting principles, 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 .34–.36 of section 90 do not address the "Accounting Principles Rule" circumstances. When the circumstances contemplated by the "Accounting Principles Rule" are present, how should the accountant report on the information described in the "Accounting Principles Rule?"

.13 *Interpretation*—When the circumstances contemplated by the "Accounting Principles Rule" are present in a review engagement, the accountant's review report should include, in a separate paragraph or paragraphs, the information required by the "Accounting Principles Rule." 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 the "Accounting Principles Rule," unless there are other reasons to do so that are not associated with the departure from a promulgated principle.

[Issue Date: February 1991; Revised: October 2000; Revised: November 2002; Revised: May 2004; Revised: July 2005;
Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 19 to section 100); Revised: January 2015.]

6. Special-Purpose Financial Statements to Comply With Contractual Agreements or Regulatory Provisions

.14 *Question*—An accountant may be asked to review special purpose financial statements prepared to comply with a contractual agreement or regulatory provision that specifies a special basis of presentation. In most 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 review report when reporting on these special-purpose financial statements?

.15 *Interpretation*—An accountant who is asked to review special-purpose financial statements prepared to comply with a contractual agreement or a regulatory provision that specifies a special basis of presentation may issue a review report on those financial statements in accordance with section 90 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 generally accepted accounting principles (GAAP) or an other comprehensive basis of accounting (OCBOA), 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 OCBOA.

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 OCBOA

.16 An entity may engage an accountant to 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 an 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 accounting principles generally accepted in the United States of America, 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.

.17 The accountant's report on reviewed special-purpose financial statements prepared in accordance with a basis of accounting prescribed in a contractual agreement or regulatory provision but that is otherwise prepared in conformity with GAAP or an OCBOA should be modified to include a separate 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 an 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.

.18 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. A review includes primarily applying analytical procedures to management (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 statement of gross income and direct operating expenses 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 statement of gross income and direct operating expenses in accordance with the regulatory provision described in Note A and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the statement of gross income and direct operating expenses.
>
> 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 statement of gross income and direct operating expenses. I (We) believe that the results of my (our) procedures provide a reasonable basis for our 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 accounting principles generally accepted in the United States of America.
>
> This report is intended solely for the information and use of [*the specified parties*] 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

.19 An entity may engage an accountant to 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.

.20 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 "having substantial support," even though the criteria are definite.

.21 The accountant's report on 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 an OCBOA should be modified to include a separate 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 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.

.22 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. A review includes primarily applying analytical procedures to management (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 statement of assets and liabilities 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 statement of assets and liabilities in accordance with Section 4 of a loan agreement between DEF Bank and the Company as discussed in Note A and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the statement of assets and liabilities.
>
> 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 statement of assets and liabilities. I (We) believe that the results of my (our) procedures provide a reasonable basis for our report.
>
> The accompanying special-purpose statement of assets and liabilities was 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 is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.
>
> Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying special-purpose statement of assets and liabilities in order for it to be in conformity with the basis of accounting described in Note A.

This report is intended solely for the information and use of the [*specified parties*]

[Issue Date: December 2006; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 28 to section 100).]

7. Reporting on an Uncertainty, Including an Uncertainty About an Entity's Ability to Continue as a Going Concern

.23 *Question*—How should an accountant modify the standard review report when, during the performance of 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?

.24 *Interpretation*—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 .47–.50 of section 90 with respect to his or her consideration of the entity's ability to continue as a going concern during the performance of review procedures.

.25 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-matter paragraph with respect to the uncertainty in the accountant's 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.

.26 *Question*—If the accountant, while performing a 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?

.27 *Interpretation*—If the accountant determines that the disclosure of the uncertainty is not in accordance with the applicable financial reporting framework, he or she should follow the guidance in paragraphs .34–.36 of section 90.

.28 If the accountant concludes that management's disclosure of the uncertainty is in accordance with the applicable financial reporting framework but further decides to include an emphasis-of-matter paragraph with respect to the uncertainty in the accountant's review report, he or she may use the following language (the following is assuming that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America):

> 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.

[Issue date: February 2007; Revised: February 2008; Amended: December 2008; Revised: June 2009; Revised: December 2010 to conform to SSARS No. 19 (formerly Interpretation No. 29 to section 100)]

8. Reviews of Financial Statements Prepared in Accordance With International Financial Reporting Standards

.29 *Question*—The International Accounting Standards Board (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 the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct as of May 18, 2008. As a result, how would an accountant apply the reporting guidance in section 90 when engaged to review financial statements presented in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB?

.30 *Interpretation*—A report illustration of how an accountant would apply the reporting guidance in section 90 when reporting on financial statements presented in accordance with IFRSs is as follows:

Independent Accountant's Review Report

[*Appropriate Salutation*]

I (We) have reviewed the accompanying statements of financial position of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of comprehensive income, changes in equity, 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 International Financial Reporting Standards as issued by the International Accounting Standards Board 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 reviews 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) 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 International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

[*Date*]

.31 *Question*—Unlike accounting principles generally accepted in the United States of America as issued by the Financial Accounting Standards Board (FASB), IFRSs require an entity to disclose comparative information in respect of the previous comparative period for all amounts presented in the current year's financial statements. When the accountant reviews financial statements that omit prior year information, should such omission be disclosed in the accountant's review report as a departure from IFRSs as issued by the IASB in accordance with paragraphs .34–.36 of section 90?

.32 *Interpretation*—Yes. Because IFRSs require an entity to disclose comparative information in respect of the previous comparative period for all amounts presented in the current year's financial statements, the failure to include such information in financial statements would be a departure from generally accepted accounting principles. An example of a paragraph that may be added to the accountant's review report is as follows:

> Comparative information with respect to the year ended December 31, 20XX-1 has not been presented. International Financial Reporting Standards [or *IFRSs for SMEs*] as issued by the International Accounting Standards Board require an entity to disclose comparative information in respect of the previous comparative period for all amounts presented in the current year's financial statements.

[Issue Date: May 2008; Revised: June 2010; Revised: August 2010; Revised: December 2010 (formerly Interpretation No. 30 to section 100); Revised: January 2015.]

9. Reviews of Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country

.33 *Question*—An accountant may be engaged to review financial statements that have been prepared in conformity with a financial reporting framework generally accepted in another country (including financial statements prepared in accordance with a jurisdictional variation of IFRSs such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with IFRSs as issued by the IASB). How should an accountant apply the reporting requirements in section 90 when reporting on those financial statements?

.34 *Interpretation*— If the financial statements are intended for use only outside of the United States of America, the accountant may report using the standard form of U.S. review report modified as appropriate to identify the applicable financial reporting framework; or alternatively, the accountant may report using the standard review report form and content of the other country. (See Interpretation No. 10 with respect to Considerations Related to Reviews Performed in Accordance with International Standard on Review Engagements [ISRE] 2400 (Revised), *Engagements to Review Historical Financial Statements*).

.35 The standard review report used in another country, even when it appears similar to that used in the United States of America, may convey a different meaning and entail a different responsibility on the part of the accountant due to custom or culture. Issuing a standard review report of another country may require an understanding of local laws. When issuing the accountant's standard review report of another country, the accountant is required to obtain an understanding of applicable legal responsibilities, in addition to the review standards and accounting principles generally accepted in the other country, as indicated in paragraph .13 of section 90. Therefore, depending on the nature and extent of the accountant's knowledge and experience, the accountant may wish to consult with persons having expertise in the reporting practices of the other country and associated legal responsibilities to obtain the understanding needed to issue that country's standard review report.

.36 If the accountant's report is intended for use in the United States of America, the reporting requirements described in paragraphs .27–.32 of section 90 would apply. Additionally, paragraph .38 of section 90 states that a need for restriction on the use of the 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 context in which it was intended to be used. Because of the nature of the basis of presentation of the financial statements, there is a presumption that the report would be misunderstood or taken out of context in which it was intended to be used. In such instances, the accountant may use the following form of report:

Independent Accountant's Review Report

[*Appropriate Salutation*]

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 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 financial reporting framework generally accepted in another country, including identification of the nationality of the framework*] 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 reviews 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) 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 [*the financial reporting framework generally accepted in another country, including identification of the nationality of the framework*].

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

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

[*Date*]

.37 When the financial statements will be used both outside of the United States of America as well as in the United States of America, nothing precludes the accountant from issuing two reports—a report to be used only outside of the United States of America and another report to be used in the United States of America.

[Issue Date: May 2008; Revised: June 2010; Revised: August 2010; Revised: December 2010 (formerly Interpretation No. 30 to section 100); Revised: December 2012; Revised: January 2015.]

10. Considerations Related to Reviews Performed in Accordance with International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*, Issued by the International Auditing and Assurance Standards Board

.38 *Question*—May a U.S. accountant perform a review of historical financial statements of a U.S. entity[1] in accordance with ISRE 2400, *Engagements to*

[1] A *U.S. entity* is an entity that is either organized or domiciled in the United States of America.

Review Financial Statements, issued by the International Auditing and Assurance Standards Board? The financial statements may have been prepared in accordance with IFRS or accounting principles generally accepted in the United States of America.

.39 *Interpretation*—An accountant performing a review of historical financial statements of a U.S. entity is required to follow the 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 review also was conducted in accordance with another set of review standards. In an engagement to review the historical financial statements in accordance with ISRE 2400, the accountant may perform the review in accordance with Statements on Standards for Accounting and Review Services (SSARSs) as well as ISRE 2400. Such a review report may read as follows:

> 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. A review includes primarily applying analytical procedures to management (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 International Financial Reporting Standards as issued by the International Accounting Standards Board 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 reviews 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 Engagements (ISRE 2400) issued by the International Auditing and Assurance Standards Board. 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) 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 or International Financial Reporting Standards as issued by the International Accounting Standards Board.

.40 If the report is for use only outside of the United States of America, the accountant is still required to apply SSARSs, except for requirements related to report form and content.

[Issue Date: May 2008; Revised: June 2010; Revised: August 2010; Revised: December 2010 (formerly Interpretation No. 30 to section 100); Revised: December 2012; Revised: January 2015.]

11. Required Supplementary Information That Accompanies Reviewed Financial Statements

.41 *Question*—Paragraph .60 of section 90 addresses situations when the basic financial statements are accompanied by information presented for supplementary analysis purposes. Certain information presented for supplementary analysis purposes may be required by a body designated by the AICPA

Council to establish GAAP pursuant to the "Compliance With Standards Rule" and the "Accounting Principles Rule"[2] (hereinafter referred to as "required supplementary information"). Examples of required supplementary information that may accompany reviewed financial statements include the following:

- With respect to common interest realty associations, estimates of current or future costs of major repairs and replacements of common property that will be required in the future as required by FASB *Accounting Standards Codification* 972-235-50-3
- Management's discussion and analysis and budgetary comparison statements as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

Is the accountant required to apply procedures to required supplementary information that accompanies reviewed financial statements?

.42 *Interpretation*—No. SSARSs do not require the accountant to apply procedures to any information presented for supplementary analysis purposes, including required supplementary information.

.43 *Question*—Paragraph .60 of section 90 states that when the basic financial statements are accompanied by information presented for supplementary analysis purposes, the accountant should indicate the degree of responsibility, if any, he or she is taking with respect to such information. How may an accountant modify the accountant's review report to refer to the required supplementary information and explain the circumstances regarding its presentation?

.44 *Interpretation*—The accountant may modify the accountant's review report by including a separate paragraph that refers to the required supplementary information and explains the circumstances regarding its presentation. That separate paragraph would be presented after the paragraph that reports the results of the engagement and may read as follows:

The Required Supplementary Information Is Included

> [*Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that [*identify the required supplementary information*] on page XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [*identify the designated accounting standard setter*] who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by me (us) and, accordingly, I (we) do not express an opinion or provide any assurance on it.

All Required Supplementary Information Omitted

> Management has omitted [*describe the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by [*identify the designated accounting standard setter*] who considers

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[2] The bodies designated by the AICPA Council to establish professional standards with respect to financial accounting and reporting principles pursuant to these rules are the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Federal Accounting Standards Advisory Board, and the International Accounting Standards Board.

it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by this missing information.

Some Required Supplementary Information Is Omitted and Some Is Presented in Accordance With the Prescribed Guidelines Regarding the Required Supplementary Information

[*Identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that [*identify the included supplementary information*] be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by [*identify designated accounting standard setter*] who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by me (us) and, accordingly, I (we) do not express an opinion or provide any assurance on it.

Management has omitted [*describe the missing required supplementary information*] that [*identify the applicable financial reporting framework*] require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standard* setter] who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by this missing information.

[Issue Date: October 2011; Revised: January 2015.]

AR Section 100

Compilation and Review of Financial Statements

Superseded, December 2010, by the issuance of SSARS No. 19.

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 (SSARSs) provide guidance concerning the standards and procedures applicable when an accountant is engaged to report on compiled financial statements or submits financial statements to his or her client or to third parties. By definition, presentations of specified elements, accounts, or items of a financial statement are not financial statements. This statement expands SSARSs to apply when an accountant is engaged to report or issues a report on one or more compiled specified elements, accounts, or items of a financial statement. If, however, the specified element, account, or item of a financial statement is included as supplementary information, the accountant should refer to paragraph .53 of section 80, *Compilation of Financial Statements*. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.02 A compilation of one or more specified elements, accounts, or items of a financial statement is limited to assisting management (owners) in presenting financial information without undertaking to obtain or provide any assurance that there are no material modifications that should be made to that information. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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 assisting management (owners) in presenting 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 or to third parties without the issuance of a compilation report, unless the accountant has been engaged to report on such compiled specified elements, accounts, or items of a financial statement. If an accountant assists management (owners) in presenting a schedule of one or more specified elements, accounts, or items of a financial statement,[1] 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

[1] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services (SSARS) No. 19.]

of reliance on the information. 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 an unintended level of reliance on the information. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.05 An engagement to report on one or more compiled specified elements, accounts, or items of a financial statement may be undertaken as a separate engagement or in conjunction with a compilation, review, or audit of financial statements. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Understanding With the Entity

.06 When an accountant is engaged to report on one or more compiled specified elements, accounts, or items of a financial statement, the accountant should establish an understanding with management regarding the services to be performed 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 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. An understanding with management and, if applicable, those charged with governance, regarding a compilation of specified elements, accounts, or items of a financial statement should include the following matters:

- The objective of a compilation of specified elements, accounts, or items of a financial statement is to assist management in presenting such financial information.
- The accountant utilizes information that is the representation of management (owners) without undertaking to obtain any assurance that there are no material modifications that should be made to the specified element, account, or item of a financial statement in order for the specified element, account, or item to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the specified element, account, or item of a financial statement 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 specified element, account, or item of a financial statement.
- Management is responsible for the prevention and detection of 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.
- The accountant is responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.
- A compilation differs significantly from a review or an audit of specified elements, accounts, or items of a financial statement. 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 specified element, account, or item of a financial statement.
- The engagement cannot be relied upon to disclose errors, fraud,[2] or illegal acts.[3]
- 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[4] that fraud or an illegal act may have occurred.[5] 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.

[Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.07 When the accountant is engaged to report on one or more compiled 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 should adhere to the communication requirements contained in paragraphs .54–.55 of section 80. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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[2] 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.

[3] For purposes of this statement, *illegal acts* are violations of laws or government regulations, excluding fraud.

[4] 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.

[5] 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 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.

Performance Requirements

.08 When the accountant is engaged to report on one or more compiled specified elements, accounts, or items of a financial statement, he or she should adhere to the compilation performance requirements contained in paragraphs .06–.13 of section 80. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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 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 inadequate disclosures. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Documentation Requirements

.10 When the accountant is engaged to report on one or more compiled specified elements, accounts, or items of a financial statement, he or she should adhere to the documentation requirements contained in paragraphs .14–.15 of section 80. [Paragraph added, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Reporting Requirements

.11 The accountant's objective in reporting on one or more compiled specified elements, accounts, or items of a financial statement is to prevent misunderstanding of the degree of responsibility the accountant is assuming when his or her name is associated with the elements, accounts, or items of a financial statement. When the accountant 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. *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 elements, accounts, or items of a financial statement have been compiled;

   ii. state that the specified element(s), account(s), or item(s) have been compiled;

   iii. identify the specified element(s), account(s), or item(s) that have been compiled;

   iv. specify the date or period covered by the specified element(s), account(s), or items;

v. include a statement that the accountant has not audited or reviewed the specified element(s), account(s), or item(s) and, accordingly, does not express an opinion or provide any assurance about whether the specified element(s), account(s), or item(s) are in accordance with the applicable financial reporting framework; and

vi. if the compilation was performed in conjunction with a compilation of the entity'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).

d. *Management's responsibility for the specified element(s), account(s), or item(s) and for internal control over financial reporting*. A statement that management (owners) is (are) responsible for the preparation and fair presentation of the specified element(s), account(s), or item(s) 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 specified element(s), account(s), or item(s).

e. *Accountant's responsibility*. A statement that the accountant's responsibility is to conduct the compilation in accordance with SSARSs issued by the AICPA.

f. A statement that the objective of a compilation is to assist management in presenting financial information in the form of specified element(s), account(s), or item(s) of a financial statement without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the specified element(s), account(s), or item(s) of a financial statement.

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 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 exhibit B, "Illustrative Accountant's Compilation Reports on Specified Elements, Accounts, or Items of a Financial Statement," for illustrative compilation reports.

[Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.12 Each page of the specified elements, accounts, or items of a financial statement compiled by the accountant should include a reference, such as "See accountant's compilation report" or "See independent accountant's compilation report." [Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

[.13] [Paragraph renumbered and deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Reporting When the Accountant Is Not Independent

.14 When the accountant is issuing a report with respect to a compilation of specified element(s), account(s), or item(s) of a financial statement 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 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[6]

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.

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.

[Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.15 This section is effective for engagements entered into after December 15, 2005. Early application is permitted. [Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

[6] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.16

Exhibit A

Illustrative Engagement Letter for a Compilation of Specified Elements, Accounts, or Items of a Financial Statement

[*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, schedule of accounts receivable or schedule of depreciation – income tax basis*] 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 compilation is to assist you in presenting financial information in the form of [*identify specified element, account, or item of the financial statement*]. 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 [*identify specified element, account, or item of the financial statement*] in order for [*identify specified element, account, or item of the financial statement*] to be in conformity with [*the applicable financial accounting framework (for example, accounting principles generally accepted in the United States of America)*].

You are responsible for

a. the preparation and fair presentation of [*identify specified element, account, or item of the financial statement*] 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 [*identify specified element, account, or item of the financial statement*].

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 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; testing 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. Accordingly, we will not express an opinion or provide any assurance regarding the [*identify specified element, account, or item of the financial statement*] 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 [*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,

____

[*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 SSARS No. 17. Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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[*] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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Exhibit B

Illustrative Compilation Reports on Specified Elements, Accounts, or Items of a Financial Statement

Standard Compilation Report on a Schedule of Accounts Receivable 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 schedule of accounts receivable of XYZ Company as of December 31, 20XX. I (we) have not audited or reviewed the accompanying schedule of accounts receivable and, accordingly, do not express an opinion or provide any assurance about whether the schedule of accounts receivable is 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 schedule of accounts receivable 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 schedule of accounts receivable.

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 a schedule of accounts receivable without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the schedule of accounts receivable.

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

[*Date*]

Standard Compilation Report on a Schedule of Depreciation Prepared in Accordance With the Basis of Accounting the Entity Uses for Federal Income Tax Purposes

Accountant's Compilation Report

[*Appropriate Salutation*]

I (we) have compiled the accompanying schedule of depreciation of XYZ Company as of December 31, 20XX. I (we) have not audited or reviewed the accompanying schedule of depreciation and, accordingly, do not express an opinion or provide any assurance about whether the schedule of depreciation is in accordance with the basis of accounting the Company uses for federal income tax purposes.

Management (owners) is (are) responsible for the preparation and fair presentation of the schedule of depreciation in accordance with the basis of accounting the Company uses for federal income tax purposes and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the schedule of depreciation.

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 a schedule of depreciation without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the schedule of depreciation.

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

[*Date*]

[Paragraph added, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

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 (SSARSs) provide guidance concerning the standards and procedures applicable when an accountant is engaged to report on compiled financial statements or submits 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 SSARSs to apply when an accountant is engaged to report or issues a report on compiled pro forma financial information. If, however, the pro forma financial information is included as supplementary information, the accountant should refer to paragraph .53 of section 80, *Compilation of Financial Statements*. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.02 A compilation of pro forma financial information is limited to assisting management (owners) in presenting financial information without undertaking to obtain or provide any assurance that there are no material modifications that should be made to that information. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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 assisting management (owners) in presenting pro forma financial information and submitting such pro forma financial information to the client or to third parties without the issuance of a compilation report, unless the accountant has been engaged to report on such compiled pro forma financial information. If an accountant assists management (owners) in presenting pro forma financial information,[1] 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 reliance on the information. 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 an unintended level of reliance on the information. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.07 An engagement to report on compiled 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 only if the document that contains the pro forma financial information includes (or incorporates by reference) the historical financial statements of the entity on which the pro forma financial information is based. Historical interim financial information 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. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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 report on compiled pro forma financial information, the accountant should establish an understanding with

[1] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services (SSARS) No. 19.]

management regarding the services to be performed 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 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. An understanding with management and, if applicable, those charged with governance regarding a compilation of pro forma financial information should include the following matters:

- The objective of a compilation of pro forma information is to assist management in presenting such financial information.
- The accountant utilizes information that is the representation of management (owners) without undertaking to obtain any assurance that there are no material modifications that should be made to the pro forma financial information in order for the pro forma financial information to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the pro forma financial information 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 pro forma financial information.
- Management is responsible for the prevention and detection of 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.
- The accountant is responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.
- A compilation differs significantly from a review or an audit of pro forma 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; 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 pro forma financial information.

- The engagement cannot be relied upon to disclose errors, fraud,[2] or illegal acts.[3]
- 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[4] that fraud or an illegal act may have occurred.[5] 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.

[Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.10 When the accountant is engaged to report on compiled 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 should adhere to the communication requirements contained in paragraphs .54–.55 of section 80. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Performance Requirements

.11 When the accountant is engaged to report on compiled pro forma financial information, he or she should adhere to the compilation performance requirements contained in paragraphs .06–.13 of section 80. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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,[6] 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 inadequate

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[2] For purposes of this statement, *fraud* is an intentional act that results in a misstatement in compiled pro forma financial information.

[3] For purposes of this statement, *illegal acts* are violations of laws or government regulations, excluding fraud.

[4] Performance requirements with respect to an engagement to compile pro forma financial information are contained in paragraphs .11–.12.

[5] 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 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.

[6] 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 paragraph .20 of section 80, *Compilation of Financial Statements*. [Footnote revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

disclosures. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Documentation Requirements

.13 When the accountant is engaged to report on compiled pro forma financial information, he or she should adhere to the documentation requirements contained in paragraphs .14–.15 of section 80. [Paragraph added, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Reporting Requirements

.14 The accountant's objective in reporting on compiled pro forma financial information is to prevent misunderstanding of the degree of responsibility the accountant is assuming when his or her name is associated with the pro forma financial information. When the accountant issues a compilation report on pro forma financial information, 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 pro forma financial information has been compiled.

ii. state that the pro forma financial information has been compiled.

iii. identify the pro forma financial information that has been compiled.

iv. specify the date or period covered by the pro forma financial information.

v. reference the financial statements from which the historical financial information is derived and include 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.)

vi. include a statement that the accountant has not audited or reviewed the pro forma financial information and, accordingly, does not express an opinion or provide any assurance about whether pro forma financial information is in accordance with the applicable financial reporting framework.

vii. if the compilation was performed in conjunction with a compilation of the entity'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.

d. *Management's responsibility for the pro forma financial information and for internal control over financial reporting*. A statement that management (owners) is (are) responsible for the preparation and fair presentation of the pro forma financial information 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 pro forma financial information.

e. *Accountant's responsibility*. A statement that the accountant's responsibility is to conduct the compilation in accordance with SSARSs issued by the AICPA.

f. A statement that the objective of a compilation is to assist management in presenting financial information in the form of pro forma financial information without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the pro forma financial information.

g. A separate paragraph explaining the objective of pro forma financial information and its limitations.

h. *Signature of the accountant*. The manual or printed signature of the accounting firm or the accountant, as appropriate.

i. *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 exhibit B, "Illustrative Accountant's Compilation Report on Pro Forma Financial Information," for an illustrative compilation report.

[Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.15 Each page of the pro forma financial information compiled by the accountant should include a reference, such as "See accountant's compilation report" or "See independent accountant's compilation report." [Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

[.16] [Paragraph renumbered and deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.][7–8]

Reporting When the Accountant Is Not Independent

.17 When the accountant is issuing a report with respect to a compilation of pro forma financial information 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 Code of Professional Conduct. The accountant

[7–8] [Footnotes deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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[9] 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.

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.

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.

[Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.18 This section is effective for engagements entered into after December 15, 2005. Early application is permitted. [Paragraph renumbered, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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[9] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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Exhibit A

Illustrative Engagement Letter for a Compilation of Pro Forma Financial Information

[*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, 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 assist you in presenting financial information in the form of pro forma financial information. 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 pro forma financial information in order for the pro forma financial information to be in conformity with [*the applicable financial accounting 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 pro forma financial information 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 pro forma financial information.

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 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; testing 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. Accordingly, we will not express an opinion or provide any assurance regarding the pro forma financial information 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 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 SSARS No. 17. Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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[*] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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Exhibit B

Illustrative Compilation Report on Pro Forma Financial Information

Compilation report on pro forma financial information reflecting a business combination 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 pro forma financial information of XYZ Company as of December 31, 20XX, reflecting the business combination of the Company and ABC Company. 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).[1] I (we) have not audited or reviewed the accompanying pro forma financial information and, accordingly, do not express an opinion or provide any assurance about whether the pro forma financial information is 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 pro forma financial information 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 pro forma financial information.

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 pro forma financial information without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the pro forma financial information.

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 transaction (or event) actually occurred earlier.

Paragraph the accountant may add after the previous paragraph when management has elected to omit substantially all disclosures, but the pro forma financial

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[1] When 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 the report.

information is otherwise in conformity with accounting principles generally accepted in the United States of America.

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

[*Date*]

[Paragraph added, December 2010, to reflect the presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

AR Section 200

Reporting on Comparative Financial Statements

Issue date, unless otherwise indicated: October 1979

See section 9200 for interpretations of this section.

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[1] of a nonissuer when financial statements of one or more periods presented have been compiled and reported on or reviewed in accordance with section 80, *Compilation of Financial Statements*, or section 90, *Review of Financial Statements*, respectively.[2] [Revised, October 2000, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services (SSARS) No. 8. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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. Exhibit A, "Illustrative Compilation Reports on Comparative Financial Statements," and exhibit B, "Illustrative Review Reports on Comparative Financial Statements," provide illustrative reports on comparative financial statements, including how the title of the report may be modified when the level of service between the years is different.[3]

.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

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[1] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services (SSARS) No. 19.]

2 The terms *nonissuer* and *financial statements* are defined in paragraph .04 of section 60, *Framework for Performing and Reporting on Compilation and Review Engagements*. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17. Footnote revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

[3] [Footnote deleted to reflect the conforming changes necessary due to the issuance of SSARS No. 8.]

columnar form in a document with financial statements on which he or she has compiled or reviewed and that his or her name has been used or his or her report included in the document, he or she should advise his or her client that the use of his or her name or report is inappropriate and should consider what other actions might be appropriate, including consultation with his or her attorney.

.04 An accountant may modify his or her 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 an applicable financial reporting framework[4] 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 an applicable financial reporting framework. (See paragraphs .30–.31 for guidance on reporting on financial statements that previously did not omit substantially all of the disclosures required by an applicable financial reporting framework.) [As amended by the issuance of SSARS No. 15, July 2007. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.06 Each page of the comparative financial statements compiled or reviewed by the accountant should include a reference such as "See Accountant's Compilation Report" or "See Independent Accountant's Review Report." [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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 or she becomes aware of during his or her current engagement and that re-expresses his or her previous conclusions or, depending on the circumstances, expresses different conclusions on the financial statements of a prior period as of the date of his or her current report.[5]

Reissued report. A report issued subsequent to the date of the original report that bears the same date as the original report. A reissued report may need to be revised for the effects of specific events; in these circumstances, the report should be dual-dated with the original date and a separate date that applies to the effects of such events.

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[4] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19]

[5] See paragraph .17 of section 80, *Compilation of Financial Statements*, and paragraph .28 of section 90, *Review of Financial Statements*. [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. Footnote revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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 or her report on the financial statements of a prior period presented with those of the current period.[6] A continuing accountant who performs a lower level of service with respect to the financial statements of the current period should either (*a*) include as a separate paragraph of his or her report a description of the responsibility assumed for the financial statements of the prior period (see paragraphs .11–.12) or (*b*) reissue his or her report on the financial statements of the prior period.

.09 [Paragraph deleted, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

.10 [Paragraph deleted, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

.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*) that follow:

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 or she has not performed any procedures in connection with that review engagement after that date.

b. Combine his or her compilation report on the financial statements of the current period with his or her 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 or her review report.

.12 See exhibit A and exhibit B for examples of a continuing accountant's standard report on comparative financial statements when

- the same level of service has been performed for both periods.
- the financial statements of the current period have been reviewed and those of the prior period have been compiled.
- the financial statements of the current period have been compiled and those of the prior period have been reviewed.

[Revised, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

Continuing Accountant's Changed Reference to a Departure From the Applicable Financial Reporting Framework

.13 During his or her current engagement, the accountant should be aware that circumstances or events may affect the prior-period financial statements

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[6] 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–.29.

presented, including the adequacy of informative disclosures. The accountant should consider the effects on his or her report on the prior-period financial statements of circumstances or events coming to his or her attention.

.14 When the accountant's report on the financial statements of the prior period contains a changed reference to a departure from the applicable financial reporting framework,[7] his or her 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.

[Revised, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

.15 See exhibit A and exhibit B for examples of reports which include an explanatory paragraph when an accountant's report contains a changed reference to a departure from accounting principles generally accepted in the United States of America. [Revised, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

Predecessor's Compilation or Review Report

.16 A predecessor may reissue his or her report at the client's request if he or she is able to make satisfactory arrangements with his or her former client and if he or she complies with the provisions of paragraphs .20–.24. However, a predecessor is not required to reissue his or her compilation or review report on the financial statements of a prior period. If he or she does not reissue his or her 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–.19 or (*b*) perform a compilation or review of the financial statements of the prior period and report on them accordingly.[8]

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 or her report on the current-period financial statements to the predecessor's report on the prior-period financial statements. This reference should include the following matters:

a. A statement that the financial statements of the prior period were compiled or reviewed by another accountant (other accountants).[9]

b. The date of his or her (their) report.

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

[8] [Footnote deleted by the issuance of SSARS No. 4, December 1981.]

[9] The successor accountant should not name the predecessor accountant in his or her report unless the predecessor accountant if the predecessor accountant's practice was acquired by, or merged with, that of the successor accountant. [Footnote amended, effective May 2004, by SSARS No. 11. Footnote revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

c. If the financial statements of the prior period were compiled, a statement that the other accountant(s) did not audit or review the financial statements and, accordingly, did not express an opinion or provide any assurance about whether the financial statements are in accordance with the applicable financial reporting framework.

d. If the financial statements of the prior period were reviewed, a statement that, based on his or her review, the other accountant(s) are 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.

e. A description or a quotation of any modifications of the standard report and of any paragraphs emphasizing a matter regarding the financial statements.

[Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.18 See exhibit A and exhibit B for examples of reports when the predecessor compiled or reviewed the financial statements of the prior period, respectively. [Revised, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

[.19] [Paragraph deleted, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

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 or her 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 or her 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 or she is aware of any matter that, in his or her opinion, might have a material effect on the financial statements, including disclosures, reported on by the predecessor. The predecessor should not refer in his or her 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 or her previous report, that he or she believes may affect the prior-period financial statements or his or her report on them, he or she should (*a*) make inquiries or perform analytical procedures similar to those he or she would have performed if he or she had been aware of such information at the date of his or her report on the prior-period financial statements and (*b*) perform any other procedures he or she considers necessary in the circumstances. For example, the predecessor may wish to discuss this information with the successor or to review the engagement documentation of the successor as it relates to the matters affecting the prior-period financial statements. If the predecessor decides, based on the information obtained, that his or her report on the prior-period financial statements should be revised, he or she should follow the guidance in paragraphs .14–.15 and .23–.24. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.23 A predecessor's knowledge of the current affairs of his or her former client is obviously limited in the absence of a continuing relationship. Consequently, when reissuing his or her report on the prior-period financial statements, a predecessor should use the date of his or her previous report to avoid any implication that he or she has performed procedures after that date other than those described in paragraphs .20–.22. If the predecessor revises his or her report or if the financial statements are restated, he or she should dual-date his or her 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 or her engagement is limited to the specific event referred to in the note or otherwise disclosed. He or she 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–.23, he or she should not reissue his or her report and may wish to consult with his or her attorney regarding the appropriate course of action.

Restated Prior-Period Financial Statements

.25 When prior-period financial statements have been restated,[10] 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 SSARS No. 12.]

.26 See exhibit A and exhibit B for examples of reports when the predecessor accountant's report is not presented and the successor accountant is

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[10] See paragraphs .10–.11 of section 400, *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 SSARS No. 12.]

engaged to compile or review the restatement adjustment(s), respectively.[11] [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2005, by SSARS No. 12. Revised, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

[.27] [Paragraph deleted, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.][12]

Reporting When One Period Is Audited

[.28] [Paragraph deleted, December 2010, to remove reference to auditing literature.]

.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, if the auditor's report on the prior period financial statements is not reissued, the report on the current period should include as a separate paragraph an appropriate description of the responsibility assumed for the financial statements of the prior period. 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 unmodified, the substantive reasons therefor, and (*e*) that no auditing procedures were performed after the date of the previous report. See exhibit A and exhibit B for examples of compilation and review reports, respectively, when the prior year financial statements were audited. [Paragraph renumbered by the issuance of SSARS No. 12, July 2005. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17. Revised, December 2010, to reflect the presentation style and conforming changes necessary due to the issuance of SSARS No. 19. Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

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 an applicable financial reporting framework 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. In these circumstances the accountant may report on comparative compiled financial statements that omit such disclosures if he or she includes in his or her report an additional paragraph indicating the nature of the previous service rendered with respect to those financial statements and the date of his or her previous report. [Paragraph renumbered by the issuance of SSARS No. 12, July 2005. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

[11] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

[12] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.31 See exhibit A for 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. [As amended, effective for periods ending after December 15, 1993, by SSARS No. 7. Paragraph renumbered by the issuance of SSARS No. 12, July 2005. Revised, December 2010, to reflect the presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

[.32–.33] [Paragraphs deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.][13–14]

Transition

[.34–.36] [Paragraphs deleted to reflect conforming changes necessary due to the issuance of SSARS No. 8. Paragraphs renumbered by the issuance of SSARS 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 SSARS No. 12, July 2005.]

[13–14] [Footnotes deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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Exhibit A

Illustrative Compilation Reports on Comparative Financial Statements

Compilation Report on Comparative Financial Statements When a Compilation Has Been Performed for Both Periods

Accountant's Compilation Report

[*Appropriate Salutation*]

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. 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 compilations 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*]

Compilation Report When the Financial Statements of the Current Year Have Been Compiled and Those of The Prior Year Have Been Reviewed

Accountant's Compilation Report[1]

[*Appropriate Salutation*]

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. I (we) have not audited or reviewed the 20X2 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

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[1] Alternatively, an accountant may use a title that does not describe the level of service such as "Accountant's Report" or "Report of Certified Public Accountants" because the report refers to different levels of service.

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 compilations 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.

The accompanying 20X1 financial statements were previously reviewed by me (us) and I (we) stated that I was (we were) not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America in my (our) report dated March 31, 20X2, but I (we) have not performed any procedures in connection with that review engagement since that date.

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

[*Date*]

Compilation Report on Comparative Financial Statements When the Accountant's Report Includes a Changed Reference to 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 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. 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 compilations 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.

In my (our) report dated March 1, 20X2 with respect to the 20X1 financial statements, we referred to a departure from accounting principles generally accepted in the United States of America because the company carried its land at appraised values. As described in Note X, the Company has changed its method of accounting for land and restated its 20X1 financial statements to conform with accounting principles generally accepted in the United States of America.

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

[*Date*]

Compilation Report on Comparative Financial Statements When the Prior Period Financial Statements Were Compiled By a Predecessor Accountant and the Predecessor's Report Is Not Presented

Accountant's Compilation Report

[*Appropriate Salutation*]

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. 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. The financial statements of XYZ Company as of December 31, 20X1, were compiled by other accountants whose report dated February 1, 20X2 stated that they have not audited or reviewed the 20X1 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 20X2 compilations 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*]

Compilation Report on Comparative Financial Statements When the Predecessor Accountant's Report Is Not Presented, and the Successor Accountant Is Engaged to Compile the Restatement Adjustment(s)

Accountant's Compilation Report

[*Appropriate Salutation*]

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. 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. The financial statements prior to adjustment of XYZ Company as of and for the year ended December 31, 20X1, were compiled by other accountants whose report dated February 1, 20X2, stated that they have not audited or reviewed the 20X1 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 compilations 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 (We) also compiled the adjustments described in Note X that were applied to restate the 20X1 financial statements. I (we) have not audited or reviewed the adjustments described in Note X that were applied to restate the 20X1 financial statements and, accordingly, do not express an opinion or provide any assurance about whether the adjustments described in Note X that were applied to restate the 20X1 financial statements are in accordance with accounting principles generally accepted in the United States of America.

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

[*Date*]

Compilation Report on Comparative Financial Statements When the Prior Period Financial Statements Were Audited

Accountant's Compilation Report[2]

[*Appropriate Salutation*]

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. 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 compilations 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.

The 20X1 financial statements were audited by me (us) (other accountants) and I (we) (they) expressed an unmodified opinion on them in my (our) (their) report dated March 1, 20X2, but I (we) (they) have not performed any auditing procedures since that date.

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

[*Date*]

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[2] Alternatively, an accountant may use a title that does not describe the level of service such as "Accountant's Report" or "Report of Certified Public Accountants" because the report refers to different levels of service.

Compilation Report on Comparative Financial Statements When Prior Period Financial Statements That Omit Substantially All Disclosures Have Been Compiled From Previously Reviewed Financial Statements of the Same Period

Accountant's Compilation Report

[*Appropriate Salutation*]

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. 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 compilations 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.

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.

The 20X1 financial statements were compiled by me (us) from financial statements that did not omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America and that I (we) previously reviewed as indicated in my (our) report dated March 1, 20X2.

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

[*Date*]

[Paragraph added, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19. Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

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Exhibit B

Illustrative Review Reports on Comparative Financial Statements

Review Report on Comparative Financial Statements When a Review Has Been Performed for Both Periods

Independent Accountant's Review Report

[*Appropriate Salutation*]

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. 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 reviews 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) 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 accounting principles generally accepted in the United States of America.

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

[*Date*]

Review Report on Comparative Financial Statements When the Financial Statements of the Current Period Have Been Reviewed and Those of The Prior Period Have Been Compiled

Independent Accountant's Review Report [1]

[*Appropriate Salutation*]

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. A review includes primarily applying analytical procedures to management's (owners') financial data and making

[1] Alternatively, an accountant may use a title that does not describe the level of service such as "Accountant's Report" or "Report of Certified Public Accountants" because the report refers to different levels of service.

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 reviews 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) reviews, 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 accounting principles generally accepted in the United States of America.

The accompanying 20X1 financial statements of XYZ Company were compiled by me (us). 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. Accordingly, I (we) 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.

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

[*Date*]

Review Report on Comparative Financial Statements When the Accountant's Report Includes a Changed Reference to 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 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. 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 reviews 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.

In my (our) report dated March 1, 20X2, with respect to the 20X1 financial statements, we referred to a departure from accounting principles generally accepted in the United States of America because the company carried its land at appraised values. As described in Note X, the Company has changed its method of accounting for land and restated its 20X1 financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, my (our) present statement on the 20X1 financial statements, as presented herein, that I am (we are) not aware of any material modifications that should be made to the accompanying financial statements is different from that expressed in our previous report.

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 accounting principles generally accepted in the United States of America.

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

[*Date*]

Review Report on Comparative Financial Statements When the Prior Period Financial Statements Were Reviewed by a Predecessor Accountant, and the Predecessor's Report Is Not Presented

Independent Accountant's Review Report

[*Appropriate Salutation*]

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. 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. The financial statements of XYZ Company as of December 31, 20X1, were reviewed by other accountants whose report dated February 1, 20X2, stated that based on their procedures, they are not aware of any material modifications that should be made to the financial statements in order for them to be in conformity 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 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 20X2 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*]

Review Report on Comparative Financial Statements When the Predecessor Accountant's Report Is Not Presented, and the Successor Accountant Is Engaged to Review the Restatement Adjustments

Independent Accountant's Review Report

[*Appropriate Salutation*]

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. 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. The financial statements of XYZ Company as of December 31, 20X1 prior to adjustment were reviewed by other accountants whose report dated February 1, 20X2, stated that based on their procedures, they are not aware of any material modifications that should be made to the financial statements in order for them to be in conformity 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 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 20X2 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

I (We) also reviewed the adjustments described in Note X that were applied to restate the 20X1 financial statements. Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the adjustments described in Note X that were applied to restate the 20X1 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*]

Review Report on Comparative Financial Statements When the Prior Period Financial Statements Were Audited

Independent Accountant's Review Report[2]

[*Appropriate Salutation*]

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. 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 20X2 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The 20X1 financial statements were audited by me (us) (other accountants) and I (we) (they) expressed an unmodified opinion on them in my (our) (their) report dated March 1, 20X2, but I (we) (they) have not performed any auditing procedures since that date.

[Paragraph added, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19. Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

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[2] Alternatively, an accountant may use a title that does not describe the level of service such as "Accountant's Report" or "Report of Certified Public Accountants" because the report refers to different levels of service.

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 section 200, *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 an applicable financial reporting framework 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, 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 the accountant's previous report.

.02 When the accountant has previously audited such financial statements, the accountant may have issued a modified opinion on the financial statements (a qualified opinion, an adverse opinion, or a disclaimer of opinion; see AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*). What effect, if any, should this have on the accountant's compilation report on the comparative financial statements? Also, when the accountant has previously compiled or reviewed such financial statements, what effect should a modification to the accountant's compilation or review report have on the accountant's compilation report on the comparative financial statements?

.03 *Interpretation*—If financial statements that omit substantially all disclosures are compiled from financial statements that the accountant has previously audited, the accountant's compilation report on the comparative financial statements should indicate whether the accountant modified the 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 on financial statements that previously did not omit substantially all disclosures, the accountant's reference to that report in the accountant's compilation report on the comparative 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 report for an uncertainty or an inconsistency in the application of an applicable financial reporting framework. When the accountant's compilation report on comparative financial statements that omit substantially all of the disclosures required by the applicable financial reporting framework includes a reference to a previous audit report that includes an emphasis-of-matter 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, in accordance with paragraph .25 of section 80, *Compilation of Financial Statements*, the accountant may emphasize the uncertainty in a separate paragraph of that portion of the accountant's report that relates to the financial statements for the current period.

[Issue Date: November, 1980; Revised: November, 2002; Revised: May, 2004; Revised: July, 2005; Revised: December, 2012.]

AR Section 300

Compilation Reports on Financial Statements Included in Certain Prescribed Forms

Issue date, unless otherwise indicated: December 1981

See section 9300 for interpretations of this section.

Source: SSARS No. 3; SSARS No. 5; SSARS No. 7; SSARS No. 15; SSARS No. 17

.01 The requirements of section 80, *Compilation of Financial Statements*, and section 200, *Reporting on Comparative Financial Statements*, are applicable when the unaudited financial statements of a nonissuer are included in a prescribed form. This section provides reporting guidance when the accountant is engaged to compile financial statements included in a prescribed form and the prescribed form or related instructions call for departure from the applicable financial reporting framework by specifying a measurement principle not in conformity with the applicable financial reporting framework or by failing to request the disclosures or presentation required by applicable financial reporting framework.[1] This section also provides additional guidance applicable to reports on financial statements included in a prescribed form.[2] [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 (SSARS) No. 17. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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 *applicable financial reporting framework*, *financial statements*, and *nonissuer* are defined in paragraph .04 of section 60, *Framework for Performing and Reporting on Compilation and Review Engagements*. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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

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[1] See paragraphs .04 and .37–.39 of section 60, *Framework for Performing and Reporting on Compilation and Review Engagements*, for guidance with respect to applicable financial reporting frameworks. [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 (SSARS) No. 15. Footnote revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

[2] [Footnote deleted to reflect the incorporation of material into relevant sections of the Statements on Standards for Accounting and Review Services.]

form and that there is no need for that body to be advised of departures from the applicable financial reporting framework required by the prescribed form or related instructions. See the exhibit, "Illustrative Compilation Reports When the Financial Statements Are Included in a Prescribed Form That Calls for a Departure From Accounting Principles Generally Accepted in the United States of America," for an illustrative example of a standard compilation report that may be used when the compiled financial statements are included in a prescribed form that calls for a departure from accounting principles generally accepted in the United States of America. [As amended, effective for periods ending after December 15, 1993, by SSARS No. 7. As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17. Revised, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

.04 If the accountant becomes aware of a departure from an applicable financial reporting framework other than departures that may be called for by the prescribed form or related instructions (see paragraph .01), he or she should follow the guidance in paragraphs .27–.29 of section 80 regarding such departures. If the accountant becomes aware of a departure from the requirements of the prescribed form or related instructions, he or she should consider that departure as the equivalent of a departure from an applicable financial reporting framework in determining its effect on his or her report. See the exhibit for an illustration of a report containing a departure from the prescribed form or related instructions. [Revised, November 2002, to reflect conforming changes necessary due to the issuance of SSARS No. 9. Revised, May 2004, to reflect conforming changes necessary due to the issuance of SSARS No. 10. Revised, July 2005, to reflect conforming changes necessary due to the issuance of SSARS No. 12. Revised, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

.05 The accountant should not sign a preprinted report form that does not conform to the guidance in this section or section 80, whichever is applicable. In such circumstances, the accountant should append an appropriate report to the prescribed form. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.06

Exhibit

Illustrative Compilation Reports on Financial Statements Included in Certain Prescribed Forms

Standard Compilation Report When the Compiled Financial Statements Are Included in a Prescribed Form That Calls for a Presentation Departure From Accounting Principles Generally Accepted in the United States of America

Accountant's Compilation Report

[*Appropriate Salutation*]

I (we) have compiled the (identification of financial statements, including period covered and the name of entity) included in the accompanying prescribed form. I (we) have not audited or reviewed the financial statements included in the accompanying prescribed form 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 included in the form prescribed by (name of body) 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.

The financial statements included in the accompanying prescribed form are presented in accordance with the requirements of [*name of body*], and are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

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

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

[*Date*]

Compilation Report When the Compiled Financial Statements Are Prepared in Accordance With a Special Purpose Framework Prescribed by Contract or Regulation and That Framework Prescribes a Format for the Financial Information[3]

Accountant's Compilation Report

[*Appropriate Salutation*]

I (we) have compiled the [*identification of financial statements, including period covered and the name of entity*] included in the accompanying prescribed form. I (we) have not audited or reviewed the financial statements included in the accompanying prescribed form and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the basis of accounting prescribed by [*describe contract or regulation*].

Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements included in the form in accordance with the basis of accounting prescribed by [*describe contract or regulation*] 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.

The financial statements included in the accompanying prescribed form are presented in accordance with the requirements of [*describe contract or regulation*], and are not intended to be a complete presentation of [*name of entity's*] assets and liabilities.

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

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

[*Date*]

[Paragraph added, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

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[3] See Interpretation No. 11, "Special-Purpose Financial Statements to Comply With Contractual Agreements or Regulatory Provisions," of section 80, *Compilation of Financial Statements* (sec. 9080 par. .32–.40).

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 accounting principles generally accepted in the United States of America 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. An accountant who has reviewed the financial statements of a nonissuer may issue a compilation report on financial statements for the same period that are included in a prescribed form that calls for a departure from accounting principles generally accepted in the United States of America. 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 introductory paragraph of the report 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_______."[*] 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; Revised: December, 2012.]

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[*] [Footnote deleted, December 2012, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 19.]

AR Section 400

Communications Between Predecessor and Successor Accountants

Issue date, unless otherwise indicated: December 1981

See section 9400 for interpretations of this section.

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.[1] 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 (SSARS) No. 7. As amended, effective November 2002, by SSARS 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 SSARS 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

[1] [Footnote deleted, November 2002, by the issuance of Statement on Standards for Accounting and Review Services (SSARS) No. 9.]

accountant may consider making inquiries of the predecessor accountant when circumstances such as the following exist:[2]

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 SSARS 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.[3] 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 SSARS 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 SSARS 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[4] such as impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to respond fully to the inquiries, the predecessor accountant should indicate that the response is limited. The successor accountant should consider the implications of a limited response in connection with acceptance of the engagement. [As amended, effective November 2002, by SSARS No. 9.]

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[2] [Footnote deleted, November 1992, by the issuance of SSARS No. 7.]

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

[4] Unpaid fees, as discussed in paragraph .08, are not considered to be an unusual circumstance for purposes of this paragraph; however, see paragraph .08.

Other Inquiries

[.07] [Paragraph deleted, November 2002, by the issuance of SSARS No. 9.]

.08 The successor accountant also may wish to review the predecessor's engagement documentation (terms such as *working papers* or *workpapers* are also sometimes used).[5] 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 engagement documentation. The predecessor accountant should determine which documentation is to be made available for review and which may be copied. Ordinarily, the predecessor accountant should provide the successor accountant access to documentation 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 documentation.[6] The predecessor accountant may decide to reach an understanding with the successor accountant about the use of the documentation.[7] 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 documentation available until the client has designated one of those accountants as the successor accountant. [As amended, effective November 2002, by SSARS No. 9. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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 section 200, *Reporting on Comparative Financial Statements*, with respect to the financial statements of a prior period. [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.]

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

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[5] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19].

[6] See the "Records Request" interpretation (ET sec. 1.400.200) under the "Acts Discreditable Rule" (ET sec. 1.400.001), for guidance on what constitutes an accountant's working papers. [Footnote added, April 30, 1982, by the Accounting and Review Services Committee. Footnote revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

[7] Before permitting access to the documentation, the predecessor accountant may wish to obtain a written communication from the successor accountant regarding the use of the documentation. The exhibit contains an illustrative successor accountant acknowledgment letter. [Footnote added, effective November 2002, by SSARS No. 9. Footnote revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

predecessor accountant. Paragraphs .47–.52 of section 80, *Compilation of Financial Statements*, and paragraphs .54–.59 of section 90, *Review of Financial Statements*, provide guidance to the predecessor accountant in determining an appropriate course of action with respect to compilation and review engagements, respectively. [As amended, effective November 2002, by SSARS No. 9. Revised, May 2004, to reflect conforming changes necessary due to the issuance of SSARS No. 10. Revised, July 2005, to reflect conforming changes necessary due to the issuance of SSARS No. 12. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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 SSARS No. 9.]

.12

Exhibit

Illustrative Successor Accountant Acknowledgment Letter

Paragraph .08 footnote 7 states, "Before permitting access to the documentation, the predecessor accountant may wish to obtain a written communication from the successor accountant regarding the use of the documentation." 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 documentation prepared in connection with that engagement. ABC has authorized our firm to allow you to review that documentation.

Our [*review or compilation*], and the documentation prepared in connection therewith, of ABC's financial statements was 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 documentation for your purposes.

We understand that the purpose of your review of our documentation 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 documentation that relate to that objective.

Upon request, we will provide copies of the documentation that provide factual information about ABC. You agree to subject any such copies, or information otherwise derived from our documentation, to your normal policy for retention of documentation and protection of confidential client information. Furthermore, in the event of a third-party request for access to your documentation prepared in connection with your (reviews or compilations) of ABC, you agree to obtain our permission before voluntarily allowing any such access to our documentation or information otherwise derived from our documentation, 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 documentation that include copies of our documentation 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 documentation 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 documentation. Accordingly, the successor accountant might consider agreeing to the following limitations on the review of the predecessor accountant's documentation 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 documentation is undertaken solely for the purpose described above and may not entail a review of all our documentation, 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 SSARS No. 9. Revised, September 2005, to reflect conforming changes necessary due to the Accounting and Review Services Committee. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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*—Section 400, *Communications Between Predecessor and Successor Accountants*, 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*—AU-C section 915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*, addresses the reporting accountant's responsibilities when requested to issue a written report on the application of the requirements of an applicable financial reporting framework to a specific transaction or the type of report that may be issued on a specific entity's financial statements.

.04 AU-C section 915 also applies to oral advice provided by the reporting accountant 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 the requirements of an applicable financial reporting framework to a specific transaction or on the type of report that may be issued on a specific entity's financial statements.

.05 Paragraph .13 of AU-C section 915 states that the reporting accountant should consult with the continuing accountant to determine whether the reporting accountant has obtained the available facts relevant to form a conclusion. The reporting accountant should follow AU-C section 915 for such engagements.

[Issue Date: August, 1987; Revised: November, 2002; Revised: December, 2012.]

AR Section 500

Reporting on Compiled Financial Statements

Deleted, November 1992, by the issuance of SSARS No. 7.

AR Section 600

Reporting on Personal Financial Statements Included in Written Personal Financial Plans

Issue date, unless otherwise indicated: September 1986

See section 9600 for interpretations of this section.

Source: SSARS No. 6

.01 This section provides an exemption from section 80, *Compilation of Financial Statements*, 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.[1] However, this statement does not preclude an accountant from complying with section 80 in such engagements. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.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 an applicable financial reporting framework. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.03 An accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of section 80 when all of the following conditions exist:

a. The accountant establishes an understanding with the client and documents the understanding through a written communication with the client 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.

[Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.04 An accountant using the exemption provided by this section should issue a written report stating that the unaudited financial statements

[1] For purposes of this statement, personal financial statements are those financial statements of an individual that meet the definition of *financial statements* in paragraph .04 of section 60, *Framework for Performing and Reporting on Compilation and Review Engagements*. [Footnote revised, December 2010, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services (SSARS) No. 19]

a. are designed solely to help develop the financial plan.

b. may be incomplete or contain other departures from the applicable financial reporting framework 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.

.05 See the exhibit, "Illustrative Report When the Accountant Submits a Written Financial Plan Containing Unaudited Personal Financial Statements That the Accountant Did Not Compile," for an illustration. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.06 Each of the personal financial statements should include a reference to the accountant's report.

Effective Date

.07 This section is effective on September 30, 1986.

.08

Exhibit

Illustrative Report When the Accountant Submits a Written Financial Plan Containing Unaudited Personal Financial Statements That the Accountant Did Not Compile

Accountant's Report

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 accounting principles generally accepted in the United States of America 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.

[Paragraph added, December 2010, to reflect the presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]

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 .03 of section 600, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*, 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 section 80, *Compilation of Financial Statements*, 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 section 80, provided the conditions in paragraph .03 of section 600 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; Revised: December 2012.]

AR

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 (SSARSs). 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 .26 of AR section 90, *Review of Financial Statements*, the accountant should document expectations and factors considered in the development of those expectations when the expectations are not otherwise readily determinable from the documentation of the work performed. [Revised, September 2012, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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	*Current Year*	*Prior Year*	*Change*	*% Change*
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

	Current Year	*Prior Year*	*Two Years Prior*
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

	Current Year	*Prior Year*	*Change*	*% Change*
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

	Current Year	*Prior Year*	*Change*	*% Change*
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

Building Contract	*Current Year*	*Prior Year*	*$ Change*	*% Change*
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		

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 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.

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.]

AR

APPENDIXES

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AR Appendix A

[*Reserved.*]

AR Appendix B

[*Reserved*.]

AR Appendix C

Schedule of Changes in Statements on Standards for Accounting and Review Services

Section	*Paragraph*	*Changes*	*Date of Change*
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
90	.01	Amended by SSARS No. 20	February 2011
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)

Section	*Paragraph*	*Changes*	*Date of Change*
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

Section	Paragraph	Changes	Date of Change
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

(continued)

Section	*Paragraph*	*Changes*	*Date of Change*
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	.01	Revised by SSARS No. 19	December 2010
110	.02	Revised by SSARS No. 19	December 2010
110	.04	Revised by SSARS No. 19	December 2010

Section	*Paragraph*	*Changes*	*Date of Change*
110	.05	Revised by SSARS No. 19	December 2010
110	.06	Revised by SSARS No. 19	December 2010
110	.07	Revised by SSARS No. 19	December 2010
110	.08	Revised by SSARS No. 19	December 2010
110	.09	Revised by SSARS No. 19	December 2010
110	.10	New paragraphs added by SSARS No. 19; subsequent paragraphs renumbered	December 2010
110	.11	Revised by SSARS No. 19	December 2010
110	.12	Revised by SSARS No. 19	December 2010
110	.13	Deleted by SSARS No. 19	December 2010
110	.14	Revised by SSARS No. 19	December 2010
110	.15	Amended by SSARS No. 17	May 2008
110	.15	Revised by SSARS No. 19	December 2010
110	.16	Revised by SSARS No. 19	December 2010
110	.17	Added by SSARS No. 19	December 2010
120		SSARS No. 14 added	July 2005
120	.01	Revised by SSARS No. 19	December 2010
120	.02	Revised by SSARS No. 19	December 2010
120	.06	Revised by SSARS No. 19	December 2010
120	.07	Revised by SSARS No. 19	December 2010
120	.09	Revised by SSARS No. 19	December 2010
120	.10	Revised by SSARS No. 19	December 2010
120	.11	Revised by SSARS No. 19	December 2010
120	.12	Revised by SSARS No. 19	December 2010
120	.13	New paragraphs added by SSARS No. 19; subsequent paragraphs renumbered	December 2010
120	.14	Revised by SSARS No. 19	December 2010
120	.15	Revised by SSARS No. 19	December 2010
120	.16	Deleted by SSARS No. 19	December 2010
120	.17	Revised by SSARS No. 19	December 2010
120	.18	Amended by SSARS No. 17	May 2008
120	.19	Revised by SSARS No. 19	December 2010
120	.20	Added by SSARS No. 19	December 2010
200	.01	Revised by SSARS No. 8	October 2000
200	.01	Amended by SSARS No. 17	February 2008
200	.01	Revised by SSARS No. 19	December 2010
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	.05	Revised by SSARS No. 19	December 2010
200	.06	Revised by SSARS No. 19	December 2010

(*continued*)

Section	*Paragraph*	*Changes*	*Date of Change*
200	.09	Amended by SSARS No. 5	July 1982
200	.09	Amended by SSARS No. 7	November 1992
200	.09	Deleted by SSARS No. 19	December 2010
200	.10	Amended by SSARS No. 7	November 1992
200	.10	Deleted by SSARS No. 19	December 2010
200	.12	Revised by SSARS No. 19	December 2010
200	.15	Revised by SSARS No. 19	December 2010
200	.16	Amended by SSARS No. 4	December 1981
200	.17	Revised by SSARS No. 19	December 2010
200	.18	Revised by SSARS No. 19	December 2010
200	.19	Deleted by SSARS No. 19	December 2010
200	.22	Revised by SSARS No. 19	December 2010
200	.25–.26	Amended by SSARS No. 12	July 2005
200	.26	Revised by SSARS No. 19	December 2010
200	.27	New paragraph added by SSARS No. 12; subsequent paragraphs renumbered	July 2005
200	.27	Deleted by SSARS No. 19	December 2010
200	.28	Deleted by SSARS No. 19	December 2010
200	.29	Amended by SSARS No. 17	February 2008
200	.29	Revised by SSARS No. 19	December 2010
200	.30	Amended by SSARS No. 5	July 1982
200	.30	Amended by SSARS No. 7	November 1992
200	.30	Revised by SSARS No. 19	December 2010
200	.31	Revised by SSARS No. 19	December 2010
200	.32	Deleted by SSARS No. 19	December 2010
200	.33	Deleted by SSARS No. 8	October 2000
200	.33	Amended by SSARS No. 17	February 2008
200	.33	Deleted by SSARS No. 19	December 2010
200	.34–.35	Deleted by SSARS No. 8	October 2000
200	.38	Added by SSARS No. 19	December 2010
200	.39	Added by SSARS No. 19	December 2010
300	.01	Amended by SSARS No. 15	July 2007
300	.01	Revised by SSARS No. 19	December 2010
300	.01–.02	Amended by SSARS No. 17	February 2008
300	.02	Revised by SSARS No. 19	December 2010
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
300	.03	Revised by SSARS No. 19	December 2010
300	.04	Revised by SSARS No. 19	December 2010
300	.05	Revised by SSARS No. 19	December 2010
300	.06	Added by SSARS No. 19	December 2010
400	.01	Amended by SSARS No. 7	November 1992

Section	*Paragraph*	*Changes*	*Date of Change*
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	Revised by SSARS No. 19	December 2010
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	.10	Revised by SSARS No. 19	December 2010
400	.11–.12	New paragraphs added by issuance of SSARS No. 9	November 2002
400	.12	Revised by SSARS No. 19	December 2010
500	. . .	Deleted by SSARS No. 7	November 1992
600	.01	Revised by SSARS No. 19	December 2010
600	.02	Revised by SSARS No. 19	December 2010
600	.03	Revised by SSARS No. 19	December 2010
600	.05	Revised by SSARS No. 19	December 2010
600	.08	Added by SSARS No. 19	December 2010

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References are to AR section and paragraph numbers.

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AR-C Cross-References to SSARSs

Part I—Statements on Standards for Accounting and Review Services and Sources of Sections in Current Text

Statements on Standards for Accounting and Review Services*

No.	*Date Issued*	*Title*	*AR-C Section*
21	Oct. 2014	*Statements on Standards for Accounting and Review Services: Clarification and Recodification*[1]	

Sources of Sections in Current Text

AR-C Section	*Contents*	*Source*
60	*General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*	SSARS No. 21
70	*Preparation of Financial Statements*	SSARS No. 21
80	*Compilation Engagements*	SSARS No. 21
90	*Review of Financial Statements*	SSARS No. 21

* This table lists Statements on Standards for Accounting and Review Services (SSARSs) issued subsequent to SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*, which was issued in October 2014. Refer to part II, "List of Statements on Standards for Accounting and Review Services Nos. 1–20," of this section for SSARSs issued prior to SSARS No. 21.

[1] SSARS No. 21 created various sections throughout *Accounting and Review Services (Clarified)*. See the following section, "Sources of Sections in Current Text," for a full list.

Part II—List of Statements on Standards for Accounting and Review Services Nos. 1–20

No.	*Date Issued*	*Title*
1	Dec. 1978	*Compilation and Review of Financial Statements*
2	Oct. 1979	*Reporting on Comparative Financial Statements*
3	Dec. 1981	*Compilation Reports on Financial Statements Included in Certain Prescribed Forms*
4	Dec. 1981	*Communications Between Predecessor and Successor Accountants*
5	July 1982	*Reporting on Compiled Financial Statements*
6	Sept. 1986	*Reporting on Personal Financial Statements Included in Written Personal Financial Plans*
7	Nov. 1992	*Omnibus Statement on Standards for Accounting and Review Services—1992*
8	Oct. 2000	Amendment to Statement on Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements*
9	Nov. 2002	*Omnibus Statement on Standards for Accounting and Review Services—2002*
10	May 2004	*Performance of Review Engagements*
11	May 2004	*Standards for Accounting and Review Services*
12	July 2005	*Omnibus Statement on Standards for Accounting and Review Services—2005*
13	July 2005	*Compilation of Specified Elements, Accounts, or Items of a Financial Statement*
14	July 2005	*Compilation of Pro Forma Financial Information*
15	July 2007	*Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services*
16	Dec. 2007	*Defining Professional Requirements in Statements on Standards for Accounting and Review Services*
17	Feb. 2008	*Omnibus Statement on Standards for Accounting and Review Services—2008*
18	Feb. 2009	*Applicability of Statements on Standards for Accounting and Review Services*
19	Dec. 2009	*Compilation and Review Engagements*
20	Feb. 2011	*Revised Applicability of Statements on Standards for Accounting and Review Services*

AR-C Introduction

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AR-C Introduction

Foreword

Clarified Statements on Standards for Accounting and Review Services

In October 2011, the Auditing Standards Board (ASB) reached a major milestone in its project to redraft all the auditing sections in the Codification of Statements on Auditing Standards (contained in AICPA *Professional Standards*), with the release of Statement on Auditing Standards (SAS) Nos. 122–124. The clarified auditing standards are designed to make the standards easier to read, understand, and apply.

The Accounting and Review Services Committee (ARSC) concluded that by undertaking a similar clarity project, it would serve the public interest and have all professional literature for audits, reviews, and compilations drafted using the same conventions. In addition, the resulting clarified compilation and review standards would be easier to read, understand, and apply.

In May 2010, ARSC approved a project to revise all existing compilation and review standards in the Codification of Statements on Standards for Accounting and Review Services (AR sections of AICPA *Professional Standards*) substantially using the drafting conventions adopted by the ASB in clarifying the auditing literature.

ARSC determined, however, that there would be certain differences between its clarity drafting conventions and those adopted by the ASB. Specifically, ARSC determined to not include specific application guidance with respect to governmental entities and smaller, less complex entities. Accordingly, the clarified SSARSs have been drafted in accordance with ARSC's clarity drafting conventions, which include the following:

- Establish objectives for each clarified AR-C section
- Include a Definitions section, where relevant, in each clarified AR-C section
- Separate requirements from application and other explanatory material
- Number application and other explanatory material paragraphs using an A- prefix and present them in a separate section that follows the Requirements section
- Use formatting techniques, such as bullet lists, to enhance readability

Convergence

Whereas the ASB used, where applicable, the corresponding International Standards on Auditing (ISA) as a base when drafting each clarified auditing standard, ARSC has used AU-C section 930, *Interim Financial Information*, as a base for the clarified review literature. AU-C section 930 was clarified using the corresponding international standard for reviews of interim financial statements as a base (International Standard on Review Engagements [ISRE] 2410, *Review of Interim Financial Information Performed by the Independent*

Auditor of the Entity), and there are no substantive differences between AU-C section 930 and ISRE 2410. ARSC determined that it was more appropriate to converge with the corresponding limited assurance engagement guidance in the American auditing literature than with ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*.

Although ARSC has considered International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*, and has adopted certain of the requirements, section 80, *Compilation Engagements*, has not been fully harmonized with ISRS 4410 because some of the underlying premises (for example, the requirement to determine independence) are different in the United States of America.

SSARS No. 21

Statement on Standards for Accounting and Review Services (SSARS) No. 21 supersedes all outstanding SSARSs through No. 20, except SSARS No. 14, *Compilation of Pro Forma Financial Information*, as amended (AR sec. 120). SSARS No. 14 is currently being redrafted and will be issued as a separate SSARS when finalized.

All compilation and review interpretations of the SSARS have been considered in the development of the clarified SSARS and either been incorporated accordingly or will be considered for inclusion in the 2015 edition of the AICPA Guide *Review, Compilation, and Financial Statement Preparation Engagements*.

SSARS No. 21 is a standalone standard and does not represent the Codification of Statements on Standards for Accounting and Review Services.

Effective Date

Section 60 is effective for engagements performed in accordance with SSARSs for periods ending on or after December 15, 2015.

Section 70 is effective for engagements to prepare financial statements for periods ending on or after December 15, 2015.

Section 80 is effective for compilations of financial statements for periods ending on or after December 15, 2015.

Section 90 is effective for reviews of financial statements for periods ending on or after December 15, 2015.

Early implementation is permitted for all sections.

AR-C Glossary

Glossary of Terms

Analytical procedures. Evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such investigation, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Applicable financial reporting framework. The financial reporting framework adopted by management and, when appropriate, those charged with governance, in the preparation and fair presentation 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.

Basic financial statements. Financial statements excluding supplementary information and required supplementary information.

Comparative financial statements. A complete set of financial statements for one or more prior periods included for comparison with the financial statements of the current period.

Designated accounting standard-setter. A body designated by the Council of the AICPA to promulgate accounting principles generally accepted in the United States of America pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

Emphasis-of-matter paragraph. A paragraph included in the accountant's compilation or review report that is required by Statements on Standards for Accounting and Review Services (SSARSs), or is included at the accountant's discretion, and that refers to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to the users' understanding of the financial statements.

Engagement partner.[1] The partner or other person in the firm who is responsible for the engagement and its performance and for the report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

Engagement team. All accountants and staff performing the engagement and any individuals engaged by the firm who perform procedures on the engagement.

Error. Mistakes in the financial statements, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including inadequate disclosures.

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[1] This term is also defined in paragraph .13 of QC section 10, *A Firm's System of Quality Control*, for purposes of the Statements on Quality Control Standards. Refer to QC section 10 for specific language.

Experienced accountant. An individual (whether internal or external to the firm) who has practical review experience and a reasonable understanding of

a. review processes;

b. SSARSs and applicable legal and regulatory requirements;

c. the business environment in which the entity operates; and

d. review and financial reporting issues relevant to the entity's industry.

Financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements (for example, accounting principles generally accepted in the United States of America [U.S. GAAP], International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework).

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.

Firm. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in the practice of public accounting.

Fraud. An intentional act that results in a misstatement in financial statements.

Generally accepted accounting principles (GAAP). References to *generally accepted accounting principles* in SSARSs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

Historical financial information. Information expressed in financial terms regarding a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Interpretive publications. Interpretations of SSARSs; the AICPA Guide *Preparation, Compilation, and Review Engagements*, guidance on reviews, compilations, and engagements to prepare financial statements included in AICPA Audit and Accounting Guides; and AICPA Statements of Position, to the extent that those statements are applicable to such engagements.

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).

Misstatement. A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Misstatements can arise from fraud or error.

Misstatements also include those adjustments of amounts, classifications, presentations, or disclosures that, in the accountant's professional judgment, are necessary for the financial statements to be presented fairly, in all material respects.

Noncompliance. Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into, by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. *Noncompliance* does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management, or employees of the entity.

Other-matter paragraph. A paragraph included in the accountant's compilation or review report that is required by SSARSs, or is included at the accountant's discretion, and that refers to a matter other than those presented or disclosed in the financial statements that, in the accountant's professional judgment, is relevant to users' understanding of the compilation or review, the accountant's responsibilities, or the accountant's compilation or review report.

Other preparation, compilation and review publications. Publications other than interpretive publications. These include AICPA accounting and review publications not defined as interpretive publications; the AICPA's annual Alert *Developments in Review, Compilation, and Financial Statement Preparation Engagements*; articles addressing reviews, compilations, and engagements to prepare financial statements in the *Journal of Accountancy* and other professional journals; continuing professional education programs and other instruction materials, textbooks, guide books, programs for reviews, compilations, and engagements to prepare financial statements, and checklists; and other publications addressing reviews, compilations, and engagements to prepare financial statements from state CPA societies, other organizations, and individuals.

Professional judgment. The application of relevant training, knowledge, and experience, within the context provided by SSARSs and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review, compilation, or engagement to prepare financial statements.

Report release date. The date the accountant grants the entity permission to use the accountant's review report in connection with the financial statements.

Required supplementary information. Information that a designated accounting standards-setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standards-setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of the information have been established.

Review documentation. The record of review procedures performed, relevant review evidence obtained, and conclusions the accountant reached (terms such as *working papers* or *workpapers* are also sometimes used).

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

Special purpose framework. A financial reporting framework other than GAAP that is one of the following bases of accounting:

a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).

b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.

c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).

d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.

e. **Other basis.** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

The cash-basis, tax-basis, regulatory-basis, and other-basis of accounting are commonly referred to as *other comprehensive bases of accounting* (OCBOA).

Specified parties. The intended users of the accountant's compilation or review report.

Subsequent events. Events occurring between the date of the financial statements and the date of the accountant's compilation or review report.

Subsequently discovered facts. Facts that become known to the accountant after the date of the accountant's review report that, had they been known to the accountant at that date, may have caused the accountant to revise the accountant's compilation or review report.

Supplementary information. Information presented outside the basic financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework.

Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of an entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel (for example, executive members of a governance board or an owner-manager).

Updated report. A report issued by a continuing accountant that takes into consideration information that the accountant becomes aware of during the accountant's current engagement and that re-expresses the accountant's previous conclusions or, depending on the circumstances, expresses different conclusions on the financial statements of a prior period reviewed by the accountant as of the date of the accountant's current report.

Written representation. A written statement by management provided to the accountant to confirm certain matters or to support other review evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

AR-C Section

STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES (CLARIFIED)

The following is a Codification of Statements on Standards for Accounting and Review Standards (SSARSs) resulting from the Accounting and Review Services Committee's (ARSC's) project to clarify and revise the standards for reviews, compilations, and engagements to prepare financial statements. SSARSs are issued by the ARSC, the senior committee of the AICPA designated to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of a nonpublic entity. Council has designated ARSC as a body to establish technical standards under the "Compliance With Standards Rule" (ET sec. 1.310.001) of the AICPA Code of Professional Conduct.

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AR-C Section 60

General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services

Source: SSARS No. 21

Effective for engagements performed in accordance with SSARSs for periods ending on or after December 15, 2015.

Introduction

Scope of This Section

.01 This section provides general principles for engagements performed in accordance with Statements on Standards for Accounting and Review Services (SSARSs) issued by the Accounting and Review Services Committee (ARSC) and codified into AR-C sections. This section also sets forth the meaning of certain terms used in SSARSs when describing the professional requirements imposed on accountants performing a review, compilation, or an engagement to prepare financial statements.

.02 This section is intended to help accountants better understand their professional responsibilities when performing an engagement in accordance with SSARSs. Additional sections have been established to set forth specific performance and reporting requirements. Such additional requirements are based on the general principles provided by this section, and any requirements created by this section also have been incorporated into the additional sections.

.03 SSARSs are written in the context of a review, compilation, or an engagement to prepare financial statements by an accountant. They are to be adapted as necessary in the circumstances when applied to reviews, compilations, and engagements to prepare other historical or prospective financial information. SSARSs do not address the responsibilities of the accountant that may exist in legislation, regulation, or otherwise. Such responsibilities may differ from those established in SSARSs. Accordingly, although the accountant may find aspects of SSARSs helpful in such circumstances, it is the responsibility of the accountant to ensure compliance with all relevant legal, regulatory, or professional obligations.

Effective Date

.04 This section is effective for engagements performed in accordance with SSARSs for periods ending on or after December 15, 2015. Early implementation is permitted.

Objective

.05 The objective of the accountant is to obtain an understanding of the general principles for engagements performed in accordance with SSARSs.

Definitions

.06 For purposes of SSARSs, the following terms have the meanings attributed as follows:

Engagement partner.[1] The partner or other person in the firm who is responsible for the engagement and its performance and for the report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

Engagement team. All accountants and staff performing the engagement and any individuals engaged by the firm who perform procedures on the engagement.

Firm. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in the practice of public accounting.

Interpretive publications. Interpretations of SSARSs; the AICPA Guide *Compilation and Review Engagements*,[2] guidance on reviews, compilations, and engagements to prepare financial statements included in AICPA Audit and Accounting Guides; and AICPA Statements of Position, to the extent that those statements are applicable to such engagements.

Other preparation, compilation and review publications. Publications other than interpretive publications. These include AICPA accounting and review publications not defined as interpretive publications; the AICPA's annual Alert *Developments in Review, Compilation, and Financial Statement Preparation Engagements*; articles addressing reviews, compilations, and engagements to prepare financial statements in the *Journal of Accountancy* and other professional journals; continuing professional education programs and other instruction materials, textbooks, guide books, programs for reviews, compilations, and engagements to prepare financial statements, and checklists; and other publications addressing reviews, compilations, and engagements to prepare financial statements from state CPA societies, other organizations, and individuals.

Professional judgment. The application of relevant training, knowledge, and experience, within the context provided by SSARSs and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review, compilation, or engagement to prepare financial statements.

Requirements

Financial Statements

.07 The financial statements subject to the engagement performed in accordance with SSARSs are those of the entity. SSARSs do not impose

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[1] This term is also defined in paragraph .13 of QC section 10, *A Firm's System of Quality Control*, for purposes of the Statements on Quality Control Standards. Refer to QC section 10 for specific language.

[2] The title of the 2015 guide will be *Review, Compilation, and Financial Statement Preparation Engagements*.

responsibilities on management and do not override laws and regulations that govern their responsibilities. (Ref: par. .A1–.A10)

Ethical Requirements

.08 The accountant should comply with relevant ethical requirements. (Ref: par. .A11–.A14)

Professional Judgment

.09 The accountant should exercise professional judgment in the performance of an engagement in accordance with SSARSs. (Ref: par. .A15–.A19)

Conduct of the Engagement in Accordance With SSARSs

.10 The accountant must perform a review, compilation, or an engagement to prepare financial statements in accordance with SSARSs, except for certain reviews of interim financial information as discussed in section 90, *Review of Financial Statements*.[3]

Complying With AR-C Sections Relevant to the Engagement

.11 The accountant should comply with all AR-C sections relevant to the engagement. An AR-C section is relevant to the engagement when the AR-C section is in effect, and the circumstances addressed by the AR-C section exist. (Ref: par. .A20–.A25)

.12 The accountant should have an understanding of the entire text of an AR-C section, including its application and other explanatory material, to understand its objectives and apply its requirements properly. (Ref: par. .A26–.A30)

.13 An accountant should not represent compliance with SSARSs in the accountant's compilation or review report unless the accountant has complied with the requirements of this section and all other AR-C sections relevant to the engagement.

Complying With Relevant Requirements

.14 Subject to paragraph .16, the accountant should comply with each requirement of the relevant AR-C section unless, in the circumstances of the engagement, the requirement is not relevant because it is conditional, and the condition does not exist. (Ref: par. .A31)

Defining Professional Responsibilities in SSARSs

.15 SSARSs use the following two categories of professional requirements, identified by specific terms, to describe the degree of responsibility they impose on accountants:

- *Unconditional requirements.* The accountant must comply with an unconditional requirement in all cases in which such requirement is relevant. SSARSs use the word "must" to indicate an unconditional requirement.
- *Presumptively mandatory requirements.* The accountant must comply with a presumptively mandatory requirement in all cases

[3] Paragraph .02 of section 90, *Review of Financial Statements*.

in which such a requirement is relevant, except in rare circumstances discussed in paragraph .16. SSARSs use the word "should" to indicate a presumptively mandatory requirement. (Ref: par. .A32)

.16 In rare circumstances, the accountant may judge it necessary to depart from a relevant presumptively mandatory requirement. In such circumstances, the accountant should perform alternative procedures to achieve the intent of the requirement. The need for an accountant to depart from a relevant, presumptively mandatory requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the intent of the requirement.

Interpretive Publications

.17 The accountant should consider applicable interpretive publications in the performance of an engagement in accordance with SSARSs. (Ref: par. .A33)

Other Preparation, Compilation and Review Publications

.18 In applying the guidance included in an other preparation, compilation and review publication, the accountant should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the engagement. (Ref: par. .A34–.A36)

Engagement Level Quality Control

.19 In an engagement performed in accordance with SSARSs, the engagement partner should possess the competence and capabilities to perform the engagement and competence in financial reporting, appropriate to the engagement circumstances.

.20 In an engagement performed in accordance with SSARSs, the engagement partner should take responsibility for the following: (Ref: par. .A37–.A40)

- *a.* The overall quality of each engagement to which that partner is assigned
- *b.* The direction, supervision, planning and performance of the engagement in compliance with professional standards and applicable legal and regulatory requirements (Ref: par. .A41)
- *c.* The accountant's report being appropriate in the circumstances
- *d.* The engagement being performed in accordance with the firm's quality control policies and procedures, including the following:
  - i. Being satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and engagements have been followed, and that conclusions reached are appropriate, including considering whether there is information that would lead the engagement partner to conclude that management lacks integrity (Ref: par. .A42–.A43)
  - ii. Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the engagement and expertise in financial reporting to
    - (1) perform the engagement in accordance with professional standards and applicable legal and regulatory requirements and

(2) enable a report that is appropriate in the circumstances to be issued, if applicable

iii. Taking responsibility for appropriate engagement documentation being maintained.

Relevant Considerations After Engagement Acceptance

.21 If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner should communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

Compliance With Relevant Ethical Requirements

.22 Throughout the engagement, the engagement partner should remain alert, through observation and making inquiries as necessary, for evidence of noncompliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, should determine the appropriate action.

Monitoring

.23 An effective system of quality control for a firm includes a monitoring process designed to provide the firm with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner should consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the engagement.

Acceptance and Continuance of Client Relationships and Engagements

.24 The accountant should not accept an engagement to be performed in accordance with SSARSs if (Ref: par. .A44)

a. the accountant has reason to believe that relevant ethical requirements will not be satisfied; (Ref: par. .A45)

b. the accountant's preliminary understanding of the engagement circumstances indicates that information needed to perform the engagement is likely to be unavailable or unreliable; or (Ref: par. .A46)

c. the accountant has cause to doubt management's integrity such that it is likely to affect the performance of the engagement.

.25 As a condition for accepting an engagement to be performed in accordance with SSARSs, the accountant should

a. determine whether preliminary knowledge of the engagement circumstances indicate that ethical requirements regarding professional competence will be satisfied.

b. determine whether the financial reporting framework selected by management to be applied in the preparation of the financial statements is acceptable. (Ref: par. .A47) *c.* obtain the agreement of management that it acknowledges and understands its responsibility (Ref: par. .A48)

i. for the selection of the financial reporting framework to be applied in the preparation of financial statements.

ii. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

iii. for preventing and detecting fraud.

iv. for ensuring that the entity complies with laws and regulations applicable to its activities.

v. for the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the preparation of financial statements.

vi. to provide the accountant with (Ref: par. .A49)

(1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

(2) additional information that the accountant may request from management for the purpose of the engagement.

(3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.

Application and Other Explanatory Material

Financial Statements (Ref: par. .07)

.A1 The preconditions for the performance of an engagement to prepare financial statements are included in paragraphs .24–.25 of this section.

.A2 The preconditions for the performance of a compilation engagement are included in paragraphs .24–.25 of this section and paragraph .08 of section 80, *Compilation Engagements*.

.A3 The preconditions for the performance of a review engagement are included in paragraphs .24–.25 of this section and paragraphs .08–.09 of section 90.

.A4 The preparation and fair presentation of the financial statements require

- the identification of the applicable financial reporting framework, in the context of any relevant laws or regulations.
- the preparation and fair presentation of the financial statements in accordance with that framework.
- the inclusion of an adequate description of that framework in the financial statements.

The preparation and fair presentation of the financial statements require management to exercise judgment when making accounting estimates that are reasonable in the circumstances as well as when selecting and applying appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.

.A5 The financial statements may be prepared in accordance with one of the following:

- A general purpose framework (a financial reporting framework designed to meet the common financial information needs of a wide range of users)
- A special purpose framework

.A6 The applicable financial reporting framework often encompasses financial accounting standards promulgated by an authorized or recognized standards-setting organization or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial accounting standards promulgated by an authorized or recognized standards-setting organization and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources or may even consist only of such sources. Such other sources may include the following:

- The legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations regarding accounting matters
- Published accounting interpretations of varying authority issued by standards-setting, professional, or regulatory organizations
- Published views of varying authority on emerging accounting issues issued by standards-setting, professional, or regulatory organizations
- General and industry practices widely recognized and prevalent
- Accounting literature

When conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained or among the sources that encompass the financial reporting framework, the source with the highest authority prevails.

.A7 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.

.A8 The financial accounting standards promulgated by organizations that are authorized or recognized to promulgate standards to be used by entities for preparing financial statements in accordance with a general purpose framework include the FASB *Accounting Standards Codification*®; International Financial Reporting Standards, issued by the International Accounting Standards Board; Statements of Federal Financial Accounting Standards, issued by the Federal Accounting Standards Advisory Board for U.S. federal government entities; and Statements of the Governmental Accounting Standards Board, issued by the Governmental Accounting Standards Board for U.S. state and local governmental entities.

.A9 The requirements of the applicable financial reporting framework also 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 changes in equity, 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. Examples of a single financial statement, each of which would include related notes, include the following:

- Balance sheet
- Statement of income or statement of operations
- Statement of retained earnings
- Statement of cash flows
- Statement of assets and liabilities
- Statement of changes in owners' equity
- Statement of revenue and expenses
- Statement of operations by product lines

.A10 An accountant may be engaged to prepare or perform a compilation or review engagement on 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. However, it is likely not appropriate for the entity to present financial statements for a period longer or shorter than an annual period in a comparative presentation with financial statements for an annual period.

Ethical Requirements (Ref: par. .08)

.A11 The accountant is subject to relevant ethical requirements relating to engagements performed in accordance with SSARSs. Ethical requirements consist of those contained in the AICPA Code of Professional Conduct, together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.

.A12 The AICPA Code of Professional Conduct establishes the fundamental principles of professional ethics, which include the following:

- Responsibilities
- The public interest
- Integrity
- Objectivity and independence
- Due care
- Scope and nature of services

.A13 Due care requires the accountant to discharge professional responsibilities with competence and have the appropriate capabilities to perform the engagement and enable an appropriate accountant's report to be issued, if applicable.

.A14 QC section 10, *A Firm's System of Quality Control*, sets out the firm's responsibilities to establish and maintain its system of quality control for engagements performed in accordance with SSARSs and establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence.[4]

Professional Judgment (Ref: par. .09)

.A15 Professional judgment is essential to the proper conduct of an engagement in accordance with SSARSs because interpretation of relevant ethical requirements and SSARSs and the informed decisions required throughout the engagement cannot be made without the application of relevant knowledge and experience to the facts and circumstances.

.A16 The distinguishing feature of the professional judgment expected of the accountant is that it is exercised by an accountant whose training, knowledge, and experience have assisted in developing the necessary competencies to achieve reasonable judgments and make informed decisions about appropriate courses of action when undertaking an engagement in accordance with SSARSs. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assists the accountant in making informed and reasonable judgments.

.A17 The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known by the accountant throughout the engagement, including

- knowledge acquired from engagements carried out for the entity's financial statements in prior periods, where applicable.
- the accountant's understanding of the entity and its environment, including its accounting system, and the application of the applicable financial reporting framework in the entity's industry.
- the extent to which the preparation and presentation of the financial statements requires the exercise of judgment by management or the accountant, if applicable.

.A18 Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of SSARSs and accounting principles and is appropriate in light of, and consistent with, the facts and circumstances that were known to the accountant up to the date of the issuance of financial statements prepared by the accountant or the date of the accountant's compilation or review report.

.A19 Professional judgment needs to be exercised throughout the engagement performed in accordance with SSARSs. It also needs to be appropriately documented in accordance with the requirements of section 70, *Preparation of Financial Statements*; section 80, *Compilation Engagements*; or section 90, as applicable. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or, in a review engagement, the evidence obtained.

Conduct of an Engagement in Accordance With SSARSs

Complying With AR-C Sections Relevant to the Engagement (Ref: par. .11–.12)

.A20 ARSC is designated to promulgate standards under the "General Standards Rule" (ET sec. 1.300.001) and the "Compliance With Standards Rule"

[4] Paragraphs .21–.25 of QC section 10.

(ET sec. 1.310.001) of the AICPA Code of Professional Conduct[5] with respect to unaudited financial statements or other unaudited financial information of an entity that is not required to file financial statements with a regulatory agency in connection with the sale or trading of its securities in a public market. ARSC develops and issues standards in the form of SSARSs through a process that includes deliberation in meetings open to the public, public exposure of proposed SSARSs, and a formal vote. SSARSs are codified in AR-C sections in AICPA *Professional Standards*.

.A21 SSARSs provide the standards used for fulfilling the overall objectives of the accountant's work. SSARSs address the general responsibilities of the accountant as well as the accountant's further considerations relevant to the application of those responsibilities to specific topics.

.A22 The scope, effective date, and any specific limitation of the applicability of a specific AR-C section are made clear in the AR-C section. Unless otherwise stated in the AR-C section, the accountant is permitted to apply an AR-C section before the effective date specified therein.

.A23 In certain engagements, the accountant also may be required to comply with other requirements in addition to SSARSs. SSARSs do not override law or regulation that governs a review, compilation, or an engagement to prepare financial statements. In the event that such law or regulation differs from SSARSs, an engagement conducted only in accordance with law or regulation will not necessarily comply with SSARSs.

.A24 The accountant may also conduct the compilation or review in accordance with both SSARSs and

- International Standard on Related Services 4410 (Revised), *Compilation Engagements*,
- International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*, or
- compilation or review standards of a specific jurisdiction or country.

In such cases, in addition to complying with each of the AR-C sections relevant to the engagement, it may be necessary for the accountant to perform additional compilation or review procedures in order to comply with the other compilation or review standards.

.A25 SSARSs are relevant to engagements to prepare financial statements and compilations and reviews of financial statements of governmental entities. The accountant's responsibilities, however, may be affected by law, regulation, or other authority (such as government policy requirements or resolutions of the legislature), which may encompass a broader scope than an engagement in accordance with SSARSs. These additional responsibilities are not dealt with in SSARSs.

.A26 In addition to objectives and requirements, an AR-C section contains related guidance in the form of application and other explanatory material. It may also contain introductory material that provides context relevant to a proper understanding of the AR-C section and definitions. The entire text of an AR-C section, therefore, is relevant to an understanding of the objectives stated

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[5] AICPA's Professional Ethics Executive Committee has restructured the Code of Professional Conduct. References in this standard are to the revised code, which is effective December 15, 2014. It is available at http://pub.aicpa.org/codeofconduct.

in an AR-C section and the proper application of the requirements of an AR-C section.

.A27 When necessary, the application and other explanatory material provides further explanation of the requirements of an AR-C section and guidance for carrying them out. In particular, it may

- explain more precisely what a requirement means or is intended to cover.
- include examples of procedures that may be appropriate in the circumstances.

Although such guidance does not, in itself, impose a requirement, it is relevant to the proper application of the requirements of an AR-C section. The accountant is required by paragraph .12 to understand the application and other explanatory material; how the accountant applies the guidance in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the AR-C section. The words "may," "might," and "could" are used to describe these actions and procedures. The application and other explanatory material may also provide background information on matters addressed in an AR-C section.

.A28 Appendixes form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related AR-C section or within the title and introduction of the appendix itself.

.A29 Introductory material may include, as needed, such matters as explanation of the following:

- The purpose and scope of the AR-C section, including how the AR-C section relates to other AR-C sections
- The subject matter of the AR-C section
- The respective responsibilities of the accountant and others in relation to the subject matter of the AR-C section
- The context in which the AR-C section is set

.A30 An AR-C section may include, in a separate section under the heading "Definitions," a description of the meanings attributed to certain terms for purposes of SSARSs. These are provided to assist in the consistent application and interpretation of SSARSs and are not intended to override definitions that may be established for other purposes, whether in law, regulation, or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout SSARSs.

Complying With Relevant Requirements (Ref: par. .14)

.A31 Within a relevant AR-C section, there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply, and the condition exists. In some cases, a requirement may be expressed as being conditional on applicable law or regulation. For example, the accountant may be required to withdraw from the review, compilation, or engagement to prepare financial statements when withdrawal is possible under applicable law or regulation, or the accountant may be required to perform a certain action, unless prohibited by law or regulation.

Defining Professional Responsibilities in SSARSs (Ref: par. .15)

.A32 If an AR-C section provides that a procedure or action is one that the accountant "should consider," consideration of the procedure or action is presumptively required. Whether the accountant performs the procedure or action is based upon the outcome of the accountant's consideration and the accountant's professional judgment.

Interpretive Publications (Ref: par. .17)

.A33 Interpretive publications are not SSARSs. *Interpretive publications* are recommendations on the application of SSARSs in specific circumstances, including engagements for entities in specialized industries. An interpretive publication is issued under the authority of ARSC only after all ARSC members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with SSARSs. Compilation and review interpretations of SSARSs and exhibits to SSARSs are included in the AR-C sections.

Other Preparation, Compilation and Review Publications (Ref: par. .18)

.A34 Other preparation, compilation and review publications have no authoritative status; however, they may help the accountant understand and apply SSARSs. The accountant is not expected to be aware of the full body of other preparation, compilation and review publications.

.A35 Although the accountant determines the relevance of these publications in accordance with paragraph .18, the accountant may presume that other preparation, compilation and review publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are appropriate. These other preparation, compilation and review publications are listed in the exhibit, "Other Preparation, Compilation and Review Publications."

.A36 When determining whether an other preparation, compilation and review publication that has not been reviewed by the AICPA Audit and Attest Standards staff is appropriate to the circumstances of the engagement, the accountant may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying SSARSs and the degree to which the issuer or author is recognized as an authority in matters addressing reviews, compilations, and engagements to prepare financial statements. Other preparation, compilation and review publications that have not been reviewed by the AICPA Audit and Attest Standards staff that contradict an other preparation, compilation and review publication that has been reviewed by the AICPA Audit and Attest Standards staff is inappropriate.

Engagement Level Quality Control (Ref: par. .20)

.A37 Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.

.A38 The actions of the engagement partner and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking responsibility for the overall quality of each engagement, emphasize the fact that quality is essential when performing an engagement in accordance with SSARSs and the importance to the quality of the engagement of

a. performing work that complies with professional standards and regulatory and legal requirements.

b. complying with the firm's quality control policies and procedures, as applicable.

c. issuing a report, if applicable, for the engagement that is appropriate in the circumstances.

d. the engagement team's ability to raise concerns without fear of reprisals.

.A39 Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to

- competence of personnel through their recruitment and formal training.
- independence through the accumulation and communication of relevant independence information.
- maintenance of client relationships through acceptance and continuance systems.
- adherence to regulatory and legal requirements through the monitoring process.

When considering the deficiencies identified in the firm's system of quality control that may affect the engagement, the engagement partner may consider measures taken by the firm to rectify those deficiencies.

.A40 A deficiency in the firm's system of quality control does not necessarily indicate that an engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements or that the accountant's report, if applicable, was not appropriate.

Assignment of Engagement Teams (Ref: par. .20b)

.A41 When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's

- understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
- understanding of professional standards and applicable legal and regulatory requirements.
- technical expertise, including expertise with relevant information technology and specialized areas of accounting or attest services.
- knowledge of relevant industries in which the client operates.
- ability to apply professional judgment.
- understanding of the firm's quality control policies and procedures.

Acceptance and Continuance of Client Relationships and Engagements Performed in Accordance With SSARSs (Ref: par. .20d(i))

.A42 QC section 10 requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and engagements in accordance with SSARSs are appropriate:

- The integrity of the principal owners, key management, and those charged with governance of the entity
- Whether the engagement team is competent to perform the engagement and has the necessary capabilities, including time and resources
- Whether the firm and the engagement team can comply with relevant ethical requirements
- Significant findings or issues that have arisen during the current or previous engagement and their implications for continuing the relationship

.A43 If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it is not appropriate to accept the engagement, unless required by law or regulation, because doing so may lead to the accountant being associated with the entity's financial statements in an inappropriate manner.

Acceptance and Continuance of Client Relationships and Engagements (Ref: par. .24–.25)

.A44 The accountant's consideration of engagement continuance and relevant ethical requirements occurs throughout the engagement as conditions and changes in circumstances occur. Performing initial procedures on engagement continuance and evaluation of relevant ethical requirements at the beginning of an engagement informs the accountant's decisions and actions prior to the performance of other significant activities for the engagement.

.A45 Relevant ethical requirements with respect to a review engagement include independence.

.A46 This consideration is not directed at the need that sometimes arises in the course of an engagement to assist management by recommending adjusting entries required to finalize the financial statements prepared by management. An example of where the accountant may have cause to doubt whether the information needed to perform the review will be available or reliable is when the accounting records necessary for performing analytical procedures are suspected to be substantially inaccurate or incomplete.

.A47 Factors that are relevant to the accountant's determination of the acceptability of the financial reporting framework selected by management to be applied in the preparation of the financial statements include the following:

- The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users)
- Whether law or regulation prescribes the applicable financial reporting framework

.A48 In accordance with this section, the accountant is required to obtain the agreement of management on management's responsibilities in relation to the financial statements as a condition precedent to accepting the engagement. In smaller entities, management may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management's agreement on an informed basis, the accountant may find it necessary to discuss those responsibilities with management in advance of seeking management's agreement on its responsibilities.

.A49 The accountant is entitled to rely on management to provide all relevant information for the engagement. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations, and other information relevant to the preparation of the financial statements in accordance with the financial reporting framework adopted by management. The information provided may include, for example, information about management's assumptions, intentions, or plans underlying development of accounting estimates needed to prepare the financial statements in accordance with the applicable financial reporting framework.

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Exhibit—Other Preparation, Compilation and Review Publications

This listing identifies *other preparation, compilation and review publications* published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff and are, therefore, presumed to be appropriate, as defined in section 60. Products may be obtained through www.cpa2biz.com.

Current AICPA Alerts

Developments in Review, Compilation, and Financial Statement Preparation Engagements

Understanding the Financial Reporting Framework for Small- and Medium-Sized Entities

Independence and Ethics Developments

***AICPA Technical Questions and Answers* Accounting and Compilation and Review Technical Questions and Answers (Q&A) Sections** (available in hard copy)

Special Purpose Frameworks

- Q&A Section 1500.07, "Disclosure Concerning Subsequent Events in Special Purpose Financial Statements"
- Q&A Section 1800.06, "Applicability of Fair Value Disclosure Requirements in FASB ASC 820 to Financial Statements Prepared in Accordance With a Special Purpose Framework"

Compilation and Review Engagements

- Q&A Section 9150.04, "Financial Statements Marked As 'Unaudited'"
- Q&A Section 9150.08, "Supplementary Information"
- Q&A Section 9150.09, "Applicability of AR Section 300 to Certain Companies Required to File With Regulatory Bodies"
- Q&A Section 9150.10, "Review of Financial Statements Included in a Prescribed Form"
- Q&A Section 9150.16, "Reference to Accountant's Report in Notes to Financial Statements"
- Q&A Section 9150.18, "Bank Engaged an Accountant to Compile a Financial Statement of Another Entity"
- Q&A Section 9150.20, "Reissuance When Not Independent"
- Q&A Section 9150.24, "Issuing a Compilation Report on Financial Statements That Omit Substantially All Disclosures After Issuing a Report on the Same Financial Statements That Include Substantially All Disclosures"
- Q&A Section 9150.25, "Determining Whether Financial Statements Have Been Prepared by the Accountant"

- Q&A Section 9150.26, "The Accountant's Responsibilities for Subsequent Events in Compilation and Review Engagements"
- Q&A Section 9150.27, "The Accountant's Reporting Responsibility With Respect to Subsequent Discovery of Facts Existing at the Date of the Report"
- Q&A Section 9150.29, "Effects on Compilation and Review Engagements When Management Does Not Assess Whether the Reporting Entity Is the Primary Beneficiary of a Variable Interest Entity and Instructs the Accountant to Not Perform the Assessment"
- Q&A Section 9150.30, "Disclosure of Independence Impairment in the Accountant's Compilation Report on Comparative Financial Statements When the Accountant's Independence Is Impaired in Only One Period"
- Q&A Section 9150.31, "Break-Even Financial Statements"

Compilation of Financial Statements

- Q&A Section 1300.17, "Omission of Reconciliation of Net Income to Cash Flow From Operations"
- Q&A Section 9160.26, "Compilation and Review—Comparative Financial Statements"
- Q&A Section 8900.10, "Successor Accountant Becomes Aware of Information During the Performance of a Compilation or Review That Leads the Successor Accountant to Believe That Financial Statements Reported On by a Predecessor Accountant Who Has Ceased Operations May Require Revision"

Compilation Reports

- Q&A Section 1300.17, "Omission of Reconciliation of Net Income to Cash Flow From Operations"
- Q&A Section 9110.07, "Statement of Cash Receipts and Disbursements"

Review of Financial Statements

- Q&A Section 8900.10, "Successor Accountant Becomes Aware of Information During the Performance of a Compilation or Review That Leads the Successor Accountant to Believe That Financial Statements Reported On by a Predecessor Accountant Who Has Ceased Operations May Require Revision"

Review Reports

- Q&A Section 8800.30, "Making Reference to Review Report"
- Q&A Section 9110.07, "Statement of Cash Receipts and Disbursements"

Other Publications

Corporations: Checklists and Illustrative Financial Statements

The Engagement Letter: Best Practices and Examples

AR-C Section 70

Preparation of Financial Statements

Source: SSARS No. 21

Effective for the preparation of financial statements for periods ending on or after December 15, 2015.

Introduction

Scope of This Section

.01 This section applies when an accountant in public practice is engaged to prepare financial statements. This section does not apply when an accountant prepares financial statements

- and is engaged to perform an audit, review, or compilation of those financial statements,
- solely for submission to taxing authorities,
- for inclusion in written personal financial plans prepared by the accountant,
- in conjunction with litigation services that involve pending or potential legal or regulatory proceedings, or
- in conjunction with business valuation services.

This section may also be applied, adapted as necessary in the circumstances, to the preparation of other historical or prospective financial information.[1] (Ref: par. .A1)

.02 The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this section) is determined based on services the client requests the accountant to perform and requires the accountant to apply professional judgment. (Ref: par. .A2)

The Preparation Engagement

.03 An engagement to prepare financial statements is a nonattest service and does not require a determination about whether the accountant is independent of the entity. (Ref: par. .A3)

.04 In addition, an engagement to prepare financial statements does not require the accountant to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements or otherwise report on the financial statements.

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[1] The Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants with respect to compilation engagements on pro forma or prospective financial information.

Effective Date

.05 This section is effective for the preparation of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

Objective

.06 The objective of the accountant is to prepare financial statements pursuant to a specified financial reporting framework.

Definitions

.07 For purposes of Statements on Accounting and Review Standards (SSARSs), the following terms have the meanings attributed as follows:

Applicable financial reporting framework. The financial reporting framework adopted by management and, when appropriate, those charged with governance, in the preparation and fair presentation 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.

Financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements (for example, accounting principles generally accepted in the United States of America [U.S. GAAP], International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework).

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).

Special purpose framework. A financial reporting framework other than GAAP that is one of the following bases of accounting:

a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).

b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.

c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission). (Ref: par. .A4)

d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.

e. **Other basis.** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

The cash-basis, tax-basis, regulatory-basis, and other-basis of accounting are commonly referred to as *other comprehensive bases of accounting* (OCBOA).

Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of an entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel (for example, executive members of a governance board or an owner-manager).

Requirements

General Principles for Performing Engagements to Prepare Financial Statements

.08 In addition to complying with this section, an accountant is required to comply with section 60, *General Principles For Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*.

Acceptance and Continuance of Client Relationships and Engagements to Prepare Financial Statements

.09 If the accountant is not satisfied with any of the matters set out in paragraph .25 of section 60 as preconditions for accepting an engagement to prepare financial statements, the accountant should discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the accountant about those matters, the accountant should not accept the proposed engagement.

Agreement on Engagement Terms

.10 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement and should include the following: (Ref: par. .A5–.A9)

a. The objective of the engagement

b. The responsibilities of management set forth in paragraph .25*c* of section 60

c. The agreement of management that each page of the financial statements will include a statement indicating that no assurance is provided on the financial statements or the accountant will be required to issue a disclaimer that makes clear that no assurance is provided on the financial statements. (Ref: par. .A11)

d. The responsibilities of the accountant

e. The limitations of the engagement to prepare financial statements

f. Identification of the applicable financial reporting framework for the preparation of financial statements

g. Whether the financial statements are to contain a known departure or departures from the applicable financial reporting framework (including inadequate disclosure) or omit substantially all disclosures required by the applicable financial reporting framework.

.11 The engagement letter or other suitable form of written agreement should be signed by

a. the accountant or the accountant's firm and

b. management or those charged with governance, as appropriate. (Ref: par. .A8)

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework

.12 The accountant should obtain an understanding of the financial reporting framework and the significant accounting policies intended to be used in the preparation of the financial statements. (Ref: par. .A10)

Preparing the Financial Statements

.13 The accountant should prepare the financial statements using the records, documents, explanations, and other information provided by management.

.14 The accountant should ensure that a statement is included on each page of the financial statements indicating, at a minimum, that "no assurance is provided" on the financial statements. If the accountant is unable to include a statement on each page of the financial statements, the accountant should (Ref: par. .A11)

- issue either a disclaimer that makes clear that no assurance is provided on the financial statements or (Ref: par. .A12)
- perform a compilation engagement in accordance with section 80, *Compilation Engagements*

.15 When preparing financial statements in accordance with a special purpose framework, the accountant should include a description of the financial reporting framework on the face of the financial statements or in a note to the financial statements. (Ref: par. .A13)

.16 If, during the preparation of financial statements, the accountant assists management with significant judgments regarding amounts or disclosures to be reflected in the financial statements, the accountant should discuss those judgments with management so management understands the significant judgments reflected in financial statements and accepts responsibility for those judgments. (Ref: par. .A14 and .A18)

.17 If the accountant becomes aware that the records, documents, explanations, or other information, including significant judgments, used in the preparation of the financial statements are incomplete, inaccurate, or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information.

.18 When, after discussions with management, the accountant prepares financial statements that contain a known departure or departures from the applicable financial reporting framework (including inadequate disclosure), the accountant should disclose the material misstatement or misstatements in the financial statements. (Ref: par. .A15)

Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework

.19 When, after discussions with management, the accountant prepares financial statements that omit substantially all disclosures required by the applicable financial reporting framework, the accountant should disclose such omission in the financial statements. (Ref: par. .A16)

.20 The accountant should not prepare financial statements that omit substantially all disclosures required by the financial reporting framework if the accountant becomes aware that the omission of substantially all disclosures was undertaken with the intention of misleading users of such financial statements. (Ref: par. .A17)

Documentation in a Preparation Engagement

.21 The accountant should prepare documentation in connection with each preparation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following: (Ref: par. .A18)

a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs .10–.11

b. A copy of the financial statements that the accountant prepared

.22 If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.

Application and Other Explanatory Material

Scope of This Section (Ref: par. .01–.02)

.A1 Other historical or prospective financial information to which this section may be applied includes the following:

- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
- Supplementary information
- Required supplementary information
- Pro forma financial information
- Prospective financial information, including budgets, forecasts, or projections

.A2 The appendix, "Preparation of Financial Statements Versus Assistance in Preparing Financial Statements," provides examples of services that the accountant may be engaged to perform and whether this section would apply.

The Preparation Engagement (Ref: par. .03)

.A3 The "Nonattest Services" subtopic of the "Independence Rule" (ET sec. 1.295) addresses the accountant's considerations with respect to independence when performing nonattest services for attest clients. For example, the accountant may prepare monthly or other interim financial statements and be engaged to perform an audit, review, or compilation engagement with respect to the annual financial statements. The accountant needs to be aware that the performance of the preparation services may impair independence unless the safeguards described in this subtopic are met.

Definitions (Ref: par. .07)

.A4 Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on GAAP but does not comply with all the requirements of GAAP. Such frameworks are regulatory-bases of accounting, as defined in paragraph .07. In some circumstances, however, the cash- or tax-basis of accounting may be permitted by a regulator. For purposes of this section, the cash- and tax-bases of accounting are not regulatory-bases of accounting.

Agreement on Engagement Terms (Ref: par. .10–.11)

.A5 Both management and the accountant have an interest in documenting the agreed-upon terms of the engagement to prepare financial statements before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or may expect the accountant to protect management against certain risks or to perform certain functions, including those that are management's responsibility.

.A6 When a third party has contracted for an engagement to prepare the entity's financial statements, agreeing the terms of the engagement with management of the entity is necessary in order to establish that the preconditions for an engagement to prepare financial statements are present.

.A7 A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for engagements to prepare financial statements is required by paragraph .10 to be in a documented form, and, accordingly, a verbal understanding is insufficient. An engagement letter is the most common, and usually the most convenient, method for documenting the understanding with management regarding the services to be performed for engagements to prepare financial statements.

.A8 The roles of management and those charged with governance in agreeing upon the terms of the engagement to prepare financial statements for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity's structure, the agreement may be with management, those charged with governance, or both. Nonetheless, when the agreement on the terms of engagement is only with those charged with governance in accordance with paragraph .25*c* of section 60, the accountant is required to obtain management's agreement that it acknowledges and understands its responsibilities.

.A9 An illustrative example of an engagement letter for an engagement to prepare financial statements is presented in the exhibit, "Illustrative Engagement Letter."

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework (Ref: par. .12)

.A10 The requirement that the accountant obtain an understanding of the financial reporting framework adopted by management intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management does not prevent the accountant from accepting an engagement to prepare financial statements for an entity in an industry in which the accountant has no previous experience. The accountant may obtain such understanding, 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 who are knowledgeable about the industry.

Preparing the Financial Statements (Ref: par. .10, .14–.16, and .18)

.A11 The statement on each page of the financial statements, including related notes, is intended to avoid misunderstanding on the part of users with respect to the accountant's involvement with the financial statements. The statement is made at management's discretion, and the accountant or the accountant's firm name is not required to be included. The accountant is concerned that the indication is not misleading. Examples of a statement on each page of the financial statements include the following:

- No assurance is provided on these financial statements.
- These financial statements have not been subjected to an audit or review or compilation engagement, and no assurance is provided on them.

Other statements that convey that no assurance is provided on the financial statements would also be acceptable.

.A12 An example of a disclaimer that the accountant may issue is as follows:

> The accompanying financial statements of XYZ Company as of and for the year ended December 31, 20XX, were not subjected to an audit, review, or compilation engagement by me (us) and, accordingly, I (we) do not express an opinion, a conclusion, nor provide any assurance on them.
>
> [*Signature of accounting firm or accountant, as appropriate*]
>
> [*Accountant's city and state*]
>
> [*Date*]

.A13 A description of the special purpose framework is usually placed next to or under the title of the financial statements (for example "statement of assets and liabilities—modified cash basis"). However, the description may be placed elsewhere in the financial statements.

.A14 In the preparation of financial statements, the accountant may provide assistance to management with significant judgments (for example, the accountant may advise management on alternative accounting policies that are significant to the financial statements or help management with significant judgments regarding material accounting estimates).

.A15 The disclosure of the material misstatement or misstatements may be made on the face of the financial statements or in a note to the financial statements.

Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework (Ref: par. .19–.20)

.A16 The disclosure of the omission of substantially all disclosures required by the applicable financial reporting framework may be made on the face of the financial statements or in a selected note to the financial statements.

.A17 The accountant may prepare financial statements that include disclosures about only a few matters in the notes to the financial statements. Such disclosures may be labeled "Selected Information—Substantially All Disclosures Required by [*the applicable financial reporting framework*] Are Not Included."

Documentation in a Preparation Engagement (Ref: par. .16 and .21)

.A18 Documentation may include documentation regarding significant consultations or significant professional judgments made throughout the engagement.

.A19

Appendix—Preparation of Financial Statements Versus Assistance in Preparing Financial Statements (Ref: par. .A2)

The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this section) is determined based on the services the client requests the accountant to perform and requires the accountant to apply professional judgment. The following table provides examples of services that the accountant may be engaged to perform and whether section 70 would apply. The table is not intended to be all inclusive, and professional judgment would still need to be applied.

Examples of Services for Which This Section Applies	*Examples of Accountant Services for Which This Section Does Not Apply*
Preparation of financial statements prior to audit or review by another accountant	Preparation of financial statements when the accountant is engaged to perform an audit, review, or compilation of such financial statements
Preparation of financial statements for an entity to be presented alongside the entity's tax return	Preparation of financial statements with a tax return solely for submission to taxing authorities
Preparation of personal financial statements for presentation alongside a financial plan	Personal financial statements that are prepared for inclusion in written personal financial plans prepared by the accountant
	Financial statements prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings
	Financial statements prepared in conjunction with business valuation services
	Maintaining depreciation schedules
	Preparing or proposing certain adjustments, such as those applicable to deferred income taxes, depreciation, or leases
Preparation of single financial statements, such as a balance sheet or income statement or financial statements with substantially all disclosures omitted	Drafting financial statement notes
Using the information in a general ledger to prepare financial statements outside of an accounting software system	Entering general ledger transactions or processing payments (general bookkeeping) in an accounting software system

.A20

Exhibit—Illustrative Engagement Letter (Ref: par. .A9)

The following is an example of an engagement letter for an engagement to prepare financial statements prepared in accordance with accounting principles generally accepted in the United States of America. This engagement letter is intended as an illustration that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances and is drafted to refer to the preparation of financial statements for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

To the appropriate representative of ABC Company:[1]

You[2] have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended and the related notes to the financial statements.[3, 4] We are pleased to confirm our acceptance and our understanding of this engagement to prepare the financial statements of ABC Company by means of this letter.

Our Responsibilities

The objective of our engagement is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you. We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion or provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

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[1] The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the engagement to prepare financial statements, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph .A8.

[2] Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

[3] If the accountant is to be engaged to prepare financial statements that omit the statement of cash flows and the related notes, the sentence may be revised to read, "You have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity." The following additional sentence may then be added: "These financial statements will not include a statement of cash flows and related notes to the financial statements."

[4] The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping services.

Management Responsibilities

The engagement to be performed is conducted on the basis that management acknowledges and understands that our role is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America. Management has the following overall responsibilities that are fundamental to our undertaking the engagement to prepare your financial statements in accordance with SSARSs:

a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements

b. The prevention and detection of fraud

c. To ensure that the entity complies with the laws and regulations applicable to its activities

d. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement to prepare financial statements

e. To provide us with:

  i. Documentation, and other related information that is relevant to the preparation and presentation of the financial statements,

  ii. Additional information that may be requested for the purpose of the preparation of the financial statements, and

  iii. Unrestricted access to persons within ABC Company of whom we determine necessary to communicate.

The financial statements will not be accompanied by a report. However, you agree that the financial statements will clearly indicate that no assurance is provided on them.

[*If the accountant expects to issue a disclaimer, instead of the preceding paragraph, the following may be added:*

As part of our engagement, we will issue a disclaimer that will state that the financial statements were not subjected to an audit, review, or compilation engagement by us and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.]

Other Relevant Information

Our fees for these services. . . .

[*The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, 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):*

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein, and our respective responsibilities.

Sincerely yours,

____

[*Signature of accountant or accountant's firm*]

Acknowledged and agreed on behalf of ABC Company by:

____

[*Signed*]

[*Name and Title*]

____

[*Date*]

[Revised, February 2015, to include additional required engagement letter elements.]

AR-C Section 80

Compilation Engagements

Source: SSARS No. 21

Effective for compilations of financial statements for periods ending on or after December 15, 2015.

Introduction

Scope of This Section

.01 This section applies when the accountant is engaged to perform a compilation engagement. This section may also be applied, adapted as necessary in the circumstances, to other historical or prospective financial information.[1] (Ref: par. .A1)

The Compilation Engagement

.02 Because a compilation engagement is not an assurance engagement, a compilation engagement does not require the accountant to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements.

Effective Date

.03 This section is effective for compilations of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

Objective

.04 The objective of the accountant in a compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements and report in accordance with this section 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 them to be in accordance with the applicable financial reporting framework.

Definitions

.05 For purposes of Statements on Accounting and Review Standards (SSARSs), the following terms have the meanings attributed as follows:

Applicable financial reporting framework. The financial reporting framework adopted by management and, when appropriate, those charged with governance, in the preparation and fair presentation of the financial statements that is acceptable in view of the nature of the

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[1] The Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants with respect to compilation engagements on pro forma or prospective financial information.

entity and the objective of the financial statements or that is required by law or regulation.

Basic financial statements. Financial statements excluding supplementary information and required supplementary information.

Financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements (for example, accounting principles generally accepted in the United States of America [U.S. GAAP], International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework).

Generally accepted accounting principles (GAAP). Reference to *generally accepted accounting principles* in SSARSs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

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).

Misstatement. A difference between the amount, classification, presentation, or disclosure of a reported financial item and the amount, classification, presentation, or disclosure that is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Misstatements can arise from fraud or error.

Misstatements also include those adjustments of amounts, classifications, presentations, or disclosures that, in the accountant's professional judgment, are necessary for the financial statements to be presented fairly, in all material respects.

Required supplementary information. Information that a designated accounting standards-setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standards-setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of the information have been established.

Special purpose framework. A financial reporting framework other than GAAP that is one of the following bases of accounting:

a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).

b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.

c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission). (Ref: par. .A2)

d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.

e. **Other basis.** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

The cash-basis, tax-basis, regulatory-basis, and other-basis of accounting are commonly referred to as *other comprehensive bases of accounting* (OCBOA).

Supplementary information. Information presented outside the basic financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework.

Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel (for example, executive members of a governance board or an owner-manager).

Requirements

General Principles for Performing and Reporting on Compilation Engagements

.06 In addition to complying with this section, an accountant is required to comply with section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services.*

Independence

.07 The accountant must determine whether the accountant is independent of the entity. (Ref: par. .A3)

Acceptance and Continuance of Client Relationships and Compilation Engagements

.08 As a condition for accepting an engagement to perform a compilation with respect to an entity's financial statements, in addition to the requirements in paragraph .25 of section 60, the accountant should obtain the agreement of management that it acknowledges and understands its responsibility

a. for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework and the inclusion of all informative disclosures that are appropriate for the applicable financial reporting framework used to prepare the entity's financial statements. If the financial statements are prepared in accordance with a special purpose framework, this includes (Ref: par. .A4)

i. a description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from GAAP, the effect of which need not be quantified, and informative disclosures similar to those required by GAAP, in the case of special purpose financial statements that contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, (Ref: par. .A23)

ii. a description of any significant interpretations of the contract on which the special purpose financial statements are prepared, in the case of financial statements prepared in accordance with a contractual-basis of accounting, and

iii. additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation.

b. to include the accountant's compilation report in any document containing financial statements that indicates that the entity's accountant has performed a compilation engagement on such financial statements unless a different understanding is reached. (Ref: par. .A5)

.09 If the accountant is not satisfied about any of the matters set out in paragraph .25 of section 60 or paragraph .08 of this section as preconditions for accepting a compilation engagement, the accountant should discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the accountant about those matters, the accountant should not accept the proposed engagement.

Agreement on Engagement Terms

.10 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement and should include the following: (Ref: par. .A6–.A11)

a. The objectives of the engagement

b. The responsibilities of management set forth in paragraph .25*c* of section 60 and paragraph .08 of this section

c. The responsibilities of the accountant

d. The limitations of the compilation engagement

e. Identification of the applicable financial reporting framework for the preparation of the financial statements

f. The expected form and content of the accountant's compilation report and a statement that there may be circumstances in which the report may differ from its expected form and content

.11 The engagement letter or other suitable form of written agreement should be signed by

a. the accountant or the accountant's firm and

b. management or those charged with governance, as appropriate. (Ref: par. .A7)

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework

.12 The accountant should obtain an understanding of the applicable financial reporting framework and the significant accounting policies intended to be used in the preparation of the financial statements. (Ref: par. .A12)

Compilation Procedures

.13 The accountant should read the financial statements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management and consider whether such financial statements appear to be appropriate in form and free from obvious material misstatements.

.14 If, in the course of the engagement, the accountant becomes aware that the records, documents, explanations, or other information, including significant judgments, provided by management are incomplete, inaccurate, or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information. (Ref: par. .A13)

.15 If the accountant becomes aware during the course of the engagement that

a. the financial statements do not adequately refer to or describe the applicable financial reporting framework (Ref: par. .A14);

b. revisions to the financial statements are required for the financial statements to be in accordance with the applicable financial reporting framework; or

c. the financial statements are otherwise misleading (Ref: par. .A15–.A16)

the accountant should propose the appropriate revisions to management.

.16 The accountant should withdraw from the engagement and inform management of the reasons for withdrawing if (Ref: par. .A17–.A18)

a. the accountant is unable to complete the engagement because management has failed to provide records, documents, explanations, or other information, including significant judgments, as requested, or

b. management does not make appropriate revisions that are proposed by the accountant or does not disclose such departures in the financial statements, and the accountant determines to not disclose such departures in the accountant's compilation report.

The Accountant's Compilation Report

.17 The accountant's compilation report should be in writing and (Ref: par. .A19 and .A22)

a. include a statement that management (owners) is (are) responsible for the financial statements.

b. identify the financial statements that have been subjected to the compilation engagement.

c. identify the entity whose financial statements have been subjected to the compilation engagement.

d. specify the date or period covered by the financial statements.

e. include a statement that the accountant performed the compilation engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA.

f. include a statement that the accountant did not audit or review the financial statements nor was the accountant required to perform any procedures to verify the accuracy or completeness of the information provided by management and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on the financial statements.

g. include the signature of the accountant or the accountant's firm. (Ref: par. .A20)

h. include the city and state where the accountant practices. (Ref: par. .A21)

i. include the date of the report, which should be the date that the accountant has completed the procedures required by this section.

The Accountant's Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework

.18 Unless the entity elects to omit substantially all disclosures, the accountant should modify the compilation report when that accountant becomes aware that the financial statements do not include

a. a description of the special purpose framework. (Ref: par. .A23)

b. a summary of significant accounting policies. (Ref: par. .A24)

c. an adequate description about how the special purpose framework differs from GAAP. The effects of these differences need not be quantified. (Ref: par. .A25)

d. informative disclosures similar to those required by GAAP when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP. (Ref: par. .A26)

.19 In the case of financial statements prepared in accordance with a contractual-basis of accounting, the accountant should modify the compilation report if the financial statements do not adequately describe any significant interpretations of the contract on which the financial statements are based.

.20 The accountant's compilation report on financial statements prepared in accordance with a special purpose framework should

a. make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when management has a choice of financial reporting frameworks in the preparation of such financial statements.

b. describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information when the financial statements are prepared in accordance with a regulatory- or contractual-basis of accounting. (Ref: par. .A27)

.21 The accountant's compilation report on financial statements prepared in accordance with a special purpose framework should include a separate paragraph that

a. indicates that the financial statements are prepared in accordance with the applicable special purpose framework,

b. refers to the note to the financial statements that describes the framework, if applicable, and

c. states that the special purpose framework is a basis of accounting other than GAAP.

Reporting When the Accountant Is Not Independent

.22 When the accountant is not independent with respect to the entity, the accountant should indicate the accountant's lack of independence in a final paragraph of the accountant's compilation report. (Ref: par. .A28–.A30)

.23 If the accountant elects to disclose a description about the reasons the accountant's independence is impaired, the accountant should include all such reasons in the description.

Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework

.24 The accountant should not issue an accountant's compilation report on financial statements that omit substantially all disclosures required by the applicable financial reporting framework unless the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. (Ref: par. .A16)

.25 When reporting on financial statements that omit substantially all disclosures required by the applicable financial reporting framework, the accountant should include a separate paragraph in the accountant's compilation report that includes the following elements: (Ref: par. .A31–.A32)

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 a special purpose framework)

b. A statement that if the omitted disclosures (and the statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the entity's financial position, results of operations, and cash flows (or the equivalent for presentations other than GAAP)

c. A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters

.26 The omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation report like any other departure from the applicable financial reporting framework, and the nature of the departure and its effects, if known, should be disclosed in accordance with paragraphs .27–.31.

Reporting Known Departures From the Applicable Financial Reporting Framework

.27 When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and the financial statements are not revised, or the departure is not disclosed in the notes to the financial statements, the accountant should modify the compilation report to disclose the departure. (Ref: par. .A34)

.28 The effects of the departure on the financial statements should be disclosed if such effects have been determined by management or are readily known to the accountant as the result of the accountant's procedures.

.29 If the effects of the departure have not been determined by management or are not readily known to the accountant as a result of the accountant's procedures, the accountant is not required to determine the effects of a departure; however, in such circumstances, the accountant should state in the report that such determination has not been made by management.

.30 If the accountant believes that modification of the compilation report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the engagement and provide no further services with respect to those financial statements. (Ref: par. .A18)

.31 The accountant should not modify the compilation report to include a statement that the financial statements are not in conformity with the applicable financial reporting framework. (Ref: par. .A33)

Supplementary Information That Accompanies Financial Statements and the Accountant's Compilation Report Thereon

.32 When supplementary information accompanies financial statements and the accountant's compilation report thereon, the accountant should clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information in either (Ref: par. .A35)

a. an other-matter paragraph in the accountant's compilation report on the financial statements or

b. a separate report on the supplementary information.

.33 When the accountant has performed a compilation engagement with respect to both the financial statements and the supplementary information, the accountant should include an other-matter paragraph in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. .A36 and .A38)

a. the information is presented for purposes of additional analysis and is not a required part of the basic financial statements;

b. the information is the representation of management; and

c. the information was subject to the compilation engagement, however, the accountant has not audited or reviewed the information and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on such information.

.34 When the accountant has performed a compilation engagement with respect to the financial statements but the supplementary information was not subject to the compilation engagement, the accountant should include an other-matter paragraph in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. .A37–.A38)

a. the information is presented for purposes of additional analysis and is not a required part of the basic financial statements;

b. the information is the representation of management; and

c. the information was not subject to the compilation engagement and, accordingly, the accountant does not express an opinion, a conclusion, nor provide any assurance on such information.

Required Supplementary Information

.35 With regard to the requirement in paragraph .32, with respect to required supplementary information, the accountant should include an other-matter paragraph in the accountant's compilation report on the financial statements. The other-matter paragraph should include language to explain the following circumstances, as applicable: (Ref: par. .A39)

a. The required supplementary information is included, and the accountant performed a compilation engagement on the required supplementary information.

b. The required supplementary information is included, and the accountant did not perform a compilation, review, or audit on the required supplementary information.

c. The required supplementary information is omitted.

d. Some required supplementary information is missing, and some is presented in accordance with the prescribed guidelines. (Ref: par. .A40)

e. The accountant has identified departures from the prescribed guidelines.

f. The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

.36 If the entity has presented all or some of the required supplementary information and the accountant did not perform a compilation engagement on the required supplementary information, the other-matter paragraph in the accountant's compilation report referred to in paragraph .32 should include the following elements: (Ref: par. .A41)

a. A statement that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] requires that the [*identify the required supplementary information*] be presented to supplement the basic financial statements

b. A statement that such information, although not a part of the basic financial statements, is required by [*identify designated accounting standards-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

c. A statement that the accountant did not perform a compilation, review, or audit on the required supplementary information and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on the information *d.* If some of the required supplementary information is omitted:

   i. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements

   ii. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards- setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

e. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]

f. If the accountant has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that the accountant has doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [*identify designated accounting standards-setter*]

.37 If all the required supplementary information is omitted, the separate paragraph in the accountant's compilation report should include the following elements:

a. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements

b. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

Documentation in a Compilation Engagement

.38 The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following:

a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs .10–.11 (Ref: par. .A9 and .A11)

b. A copy of the financial statements

c. A copy of the accountant's report

Application and Other Explanatory Material

Scope of This Section (Ref: par. .01)

.A1 Other historical or prospective financial information that may be the subject of a compilation engagement include the following:

- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
- Supplementary information
- Required supplementary information
- Pro forma financial information
- Prospective financial information, including budgets, forecasts, or projections
- Financial information contained in a tax return

Definitions (Ref: par. .05)

.A2 Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on GAAP but does not comply with all the requirements of GAAP. Such frameworks are regulatory-bases of accounting, as defined in paragraph .05. In some circumstances, however, the cash- or tax-basis of accounting may be permitted by a regulator. For purposes of this section, the cash- and tax-bases of accounting are not regulatory-bases of accounting.

Independence (Ref: par. .07)

.A3 The interpretations of the "Independence Rule" (ET sec. 1.200.001) of the AICPA Code of Professional Conduct provide authoritative guidance with respect to independence. It is in the public interest and, therefore, required by this section, that the accountant modify the accountant's compilation report when the accountant is not independent of the entity whose financial statements are the subject of the compilation engagement. The AICPA Code of Professional Conduct also defines *independence* as consisting of two elements, independence of mind and independence in appearance. Independence enhances the accountant's ability to act with integrity and be objective. Independence implies an impartiality that recognizes an obligation to be fair not only to management but also to users of the financial statements, who may rely upon the accountant's compilation report. In the absence of an interpretation of the "Independence Rule" that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Independence" interpretation (ET sec. 1.210.010).

Acceptance and Continuance of Client Relationships and Compilation Engagements (Ref: par. .08)

.A4 A compilation in accordance with SSARSs is conducted on the premise that management has acknowledged and understands that it has the responsibility set out in paragraph .25*c* of section 60. The preparation of financial statements, in whole or in part, is a nonattest service subject to the provisions of the "Nonattest Services" subtopic of the "Independence Rule" (ET sec. 1.295).

To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and documenting the terms of the compilation engagement as required by paragraphs .10–.11.

.A5 Documents containing financial statements that may include an indication that such financial statements have been subjected to a compilation engagement by the entity's accountant includes documents submitted to bonding companies.

Agreement on Engagement Terms (Ref: par. .10–.11 and .38)

.A6 Both management and the accountant have an interest in documenting the terms of the compilation engagement before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or perform certain functions, including those that are management's responsibility.

.A7 The roles of management and those charged with governance in agreeing upon the terms of the compilation engagement for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity's structure, the agreement may be with management, those charged with governance, or both. Nonetheless, when the agreement on the terms of engagement is only with those charged with governance, in accordance with paragraph .25*c* of section 60, the accountant is required to obtain management's agreement that it acknowledges and understands its responsibilities.

.A8 When a third party has contracted for a compilation of the entity's financial statements, agreeing the terms of the compilation with management of the entity is necessary in order to establish that the preconditions for a compilation are present.

.A9 A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for compilation engagements is required by paragraph .10 to be in a documented form, and, accordingly, a verbal understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for compilation engagements.

.A10 Although the accountant may prepare the financial statements, in whole or in part, the financial statements are representations of management, and the fairness of their presentation in accordance with the applicable financial reporting framework is management's responsibility.

.A11 Illustrative examples of engagement letters for a compilation engagement are presented in exhibit A, "Illustrative Engagement Letters."

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework (Ref: par. .12)

.A12 The requirement that the accountant obtain an understanding of the applicable financial reporting framework intended to be used in the preparation of the financial statements, and the significant accounting policies adopted by management, does not prevent the accountant from accepting a compilation engagement for an entity in an industry in which the accountant has no previous experience. The accountant may obtain such understanding, 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 who are knowledgeable about the framework or the industry.

Compilation Procedures (Ref: par. .14–.16, .24, and .30)

.A13 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 performed such inquiries or procedures and the results of those inquiries or procedures, knowledge gained from prior engagements, or the financial statements themselves may cause the accountant to become aware that information provided by management is incorrect, incomplete, or otherwise unsatisfactory.

.A14 The financial statements may adequately refer to or describe the applicable financial reporting framework via

- the financial statement titles or
- the notes to the financial statements.

.A15 Financial statements may be misleading, for example, if the applicable financial reporting framework includes the premise that the financial statements are prepared on the going concern basis, and undisclosed uncertainties exist regarding the entity's ability to continue as a going concern. If the accountant becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the accountant may suggest additional disclosures concerning the entity's ability to continue as a going concern in order to avoid the financial statements being misleading.

.A16 Disclosure of items, such as an uncertainty, is not required in financial statements in which substantially all the disclosures required by the applicable financial reporting framework are omitted.

.A17 In circumstances addressed by the requirements of this section in which withdrawal from the engagement is necessary, the responsibility to inform management of the reasons for withdrawing provides an opportunity to explain the accountant's ethical obligations.

.A18 When making a determination about whether and how to withdraw from an engagement, the accountant may wish to consult with legal counsel.

The Accountant's Compilation Report (Ref: par. .17)

.A19 The accountant's written report may become unattached from the financial statements. To minimize the possibility that a user of the financial statements may infer an unintended level of reliance on the financial statements, the accountant may request that management include a reference on each page of the financial statements to the accountant's written report. An example of a reference to the accountant's written report included on each page of the financial statements is "See Accountant's Report" or "See Accountant's Compilation Report."

.A20 The signature of the accountant or the accountant's firm may be manual, printed, or digital, as appropriate.

.A21 The city and state where the accountant practices may be indicated on letterhead that contains the issuing office's city and state.

.A22 Illustrative examples of accountant's compilation reports are presented in exhibit B, "Illustrative Examples of the Accountant's Compilation Reports on Financial Statements."

The Accountant's Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework (Ref: par. .08, .18, and .20)

.A23 The description of the special purpose framework may be included in the financial statement titles, in the notes to the financial statements, or otherwise on the face of the financial statements. Although terms such as *balance sheet*, *statement of financial position*, *statement of income*, *statement of operations*, and *statement of cash flows*, or similar unmodified titles, are generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP, such titles, with appropriate modification, may be used in connection with financial statements prepared in accordance with a special purpose framework. Suitable financial statement titles for financial statements prepared in accordance with a special purpose framework include, but are not limited to

- a modified cash-basis financial statement that might be titled
  - "Income Statement—Modified Cash-Basis," or
  - "Statement of Cash Receipts and Disbursements."
- financial statements prepared in accordance with the tax-basis of accounting that might be titled
  - "Balance Sheet—Tax-Basis,"
  - "Statement of Assets, Liabilities, and Equity—Tax-Basis,"
  - "Statement of Operations—Tax-Basis," or
  - "Statement of Revenue and Expenses—Tax-Basis."
- a financial statement prepared in accordance with a regulatory-basis of accounting that might be titled "Statement of Income—Regulatory-Basis."

.A24 Financial statements prepared in accordance with a special purpose framework need not include a summary of significant accounting policies or a description about how the special purpose framework differs from GAAP if such financial statements omit substantially all disclosures, and the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.

.A25 The description of how the special purpose framework differs from GAAP ordinarily only includes the material differences between GAAP and the special purpose framework. For example, if several items are accounted for differently in accordance with the special purpose framework than they would be in accordance with GAAP, but only the differences in how depreciation is calculated are material, a brief description of the depreciation differences is all that would be necessary, and the remaining differences need not be described or quantified.

.A26 Financial statements prepared when applying a special purpose framework are not considered appropriate in form unless the financial statements include 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.

.A27 When the financial statements are prepared in accordance with a regulatory- or contractual-basis of accounting, the accountant is required by paragraph .20*b* to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid misunderstandings when the financial statements are used for purposes other than those for which they were intended. The note to the financial statements may also describe any significant interpretations of the contract on which the financial statements are based.

Reporting When the Accountant Is Not Independent (Ref: par. .22)

.A28 An example of a disclosure that an accountant may make to indicate the accountant's lack of independence would be

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

.A29 The accountant is not precluded from disclosing a description about the reason(s) that the accountant's independence is impaired. The following are examples of descriptions the accountant may use:

- 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.
- 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.
- 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.

.A30 Illustrative examples of accountant's compilation reports when the accountant's independence has been impaired are presented in exhibit B.[2]

Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework (Ref: par. .25)

.A31 When management elects to include disclosures about only a few matters in the notes to the financial statements, such disclosures may be labeled "Selected Information—Substantially All Disclosures Required by [*the applicable financial reporting framework*] Are Not Included."

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[2] Illustration 4, "An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant's Independence Is Impaired, and the Accountant Determines to Not Disclose the Reasons for the Independence Impairment" and illustration 5, "An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities When the Accountant's Independence Has Been Impaired Due to the Accountant Having a Financial Interest in the Entity, and the Accountant Decides to Disclose the Reasons for the Independence Impairment," of exhibit B, "Illustrative Examples of the Accountant's Compilation Report on Financial Statements."

.A32 An illustrative example of an accountant's compilation report on financial statements that omit substantially all disclosures required by the applicable financial reporting framework is presented in exhibit B.[3]

Reporting Known Departures From the Applicable Financial Reporting Framework (Ref: par. .28 and .31)

.A33 The accountant is precluded from including a statement that the financial statements are not in conformity with the applicable financial reporting framework because such a statement would be tantamount to expressing an adverse opinion on the financial statements as a whole. Such an opinion can be expressed only in the context of an audit engagement.

.A34 An illustrative example of an accountant's compilation report on financial statements that contain known departures from the applicable financial reporting framework that are not disclosed in the notes to the financial statements is presented in exhibit B.[4]

Supplementary Information That Accompanies Financial Statements and the Accountant's Compilation Report Thereon (Ref: par. .32–.34)

.A35 Although not required to perform a compilation engagement on supplementary information that accompanies financial statements and the accountant's compilation report thereon, nothing precludes the accountant from performing a compilation engagement on such information if engaged to do so.

.A36 The following is an example of how an accountant may word a separate paragraph in the accountant's compilation report addressing supplementary information when the accountant has performed a compilation engagement on both the financial statements and the supplementary information:

> The [*identify the supplementary information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the representation of management. The information was subject to our compilation engagement, however, I (we) have not audited or reviewed the information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on such information.

.A37 The following is an example of how an accountant may word a separate paragraph in the accountant's compilation report addressing supplementary information when the accountant has performed a compilation engagement on the financial statements but has not performed a compilation on the supplementary information:

> The [*identify the supplementary information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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[3] Illustration 3, "An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the Tax-Basis of Accounting, and Management Has Elected to Omit Substantially All Disclosures Ordinarily Included in Financial Statements Prepared in Accordance With the Tax-Basis of Accounting," of exhibit B.

[4] Illustration 6, "An Accountant's Compilation Report on Comparative Financial Statements, and the Accountant is Aware of Departures From Accounting Principles Generally Accepted in the United States of America," of exhibit B.

This information is the representation of management. The information was not subject to our compilation engagement. I (We) do not express an opinion, a conclusion, nor provide any assurance on such information.

.A38 Supplementary information may become unattached from the accountant's compilation report. To minimize the possibility that a user of the information may infer, through the accountant's association with the information, an unintended level of reliance on the information, the accountant may request that management include a reference to the accountant's compilation report on each page of the information. An example of a reference to the accountant's compilation report included on each page of the supplementary information is "See Accountant's Report" or "See Accountant's Compilation Report."

Required Supplementary Information (Ref: par. .35–.36)

.A39 Examples of required supplementary information that may accompany financial statements and the accountant's compilation report thereon include the following:

- With respect to common interest realty associations, estimates of current or future costs of major repairs and replacements of common property that will be required in the future as required by FASB *Accounting Standards Codification* 972-235-50-3
- Management's discussion and analysis and budgetary comparison statements as required by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

.A40 *Prescribed guidelines* are the authoritative guidelines established by the designated accounting standards-setter for the methods of measurement and presentation of the required supplementary information.

.A41 Because the required supplementary information accompanies the basic financial statements, the accountant's compilation report on the financial statements includes a discussion of the responsibility taken by the accountant on that information. However, if the required supplementary information is omitted by the entity, the accountant does not have a responsibility to present that information.

.A42

Exhibit A—Illustrative Engagement Letters (Ref: par. .A11)

Illustration 1—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 2—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America, Except the Financial Statements Omit the Statement of Cash Flows and Substantially All Disclosures Required by U.S. GAAP and in Which the Accountant's Independence Is Impaired

Illustration 3—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

The illustrative engagement letters in this exhibit are intended as illustrations that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances, and the illustrations are drafted to refer to a compilation engagement for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

Illustration 1—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial statements, including related notes, subject to the compilation engagement.
- The financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America and will include all related notes required by accounting principles generally accepted in the United States of America
- The accountant expects that his or her independence will not be impaired

To the appropriate representative of management of ABC Company:[1]

[1] The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph .A7.

You[2] have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and perform a compilation engagement with respect to those financial statements.[3],[4] We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

Our Responsibilities

The objective of our engagement is to

a. prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and

b. apply accounting and financial reporting expertise to assist you in the presentation 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 in order for them to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our compilation engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America and assist you in the presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

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[2] Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

[3] If the accountant is to be engaged to prepare financial statements that omit the statement of cash flows and the related notes and perform a compilation engagement with respect to those financial statements, the sentence may be revised to read, "You have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity, and perform a compilation engagement with respect to those financial statements." The following additional sentence may then be added: "These financial statements will not include a statement of cash flows and related notes to the financial statements."

[4] The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping services.

a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements

b. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America and the inclusion of all informative disclosures that are appropriate for accounting principles generally accepted in the United States of America

c. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements

d. The prevention and detection of fraud

e. To ensure that the entity complies with the laws and regulations applicable to its activities

f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

g. To provide us with

  i. access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters

  ii. additional information that we may request from you for the purpose of the compilation engagement

  iii. unrestricted access to persons within the entity of whom we determine it necessary to make inquiries

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

You agree to include our accountant's compilation report in any document containing financial statements that indicates that we have performed a compilation engagement on such financial statements and, prior to inclusion of the report, to ask our permission to do so.

Other Relevant Information

Our fees for these services. . . .

[*The accountant may include language, such as the following, regarding limitation of or other arrangements regarding the liability of the accountant or the entity, 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):*

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a compilation engagement with respect to those same financial statements, and our respective responsibilities.

Sincerely yours,

____

[*Signature of accountant or accountant's firm*]

Acknowledged and agreed on behalf of ABC Company by:

____

[*Signed*]

[*Name and Title*]

____

[*Date*]

[Revised, February 2015, to include additional required engagement letter elements.]

Illustration 2—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America, Except the Financial Statements Omit the Statement of Cash Flows and Substantially All Disclosures Required by U.S. GAAP and in Which the Accountant's Independence Is Impaired

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial statements subject to the compilation engagement.
- The financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America, except the statement of cash flows and substantially all disclosures required by accounting principles generally accepted in the United States of America will be omitted.
- The accountant's independence will be impaired as a result of the performance of the nonattest preparation service.

To the appropriate representative of management of ABC Company:[1]

You[2] have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity for the year then ended, and perform a compilation engagement with respect to those financial statements.[3] These financial statements will not include a statement of cash flows and related notes to the financial statements. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

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[1] The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph .A7.

[2] Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

[3] The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping service.

Our Responsibilities

The objective of our engagement is to

a. prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and

b. apply accounting and financial reporting expertise to assist you in the presentation 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 in order for them to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our compilation engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion, a conclusion, nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Your Responsibilities

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America and assist you in the presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements

b. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America

c. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements

d. The prevention and detection of fraud

e. To ensure that the entity complies with the laws and regulations applicable to its activities

f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

g. To provide us with

i. access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters

ii. additional information that we may request from you for the purpose of the compilation engagement

iii. unrestricted access to persons within the entity of whom we determine it necessary to make inquiries

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them. We will disclose that we are not independent in our report.

You agree to include our accountant's compilation report in any document containing financial statements that indicates that we have performed a compilation engagement on such financial statements and, prior to inclusion of the report, to ask our permission to do so.

Other Relevant Information

Our fees for these services. . . .

[*The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, 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):*

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorneys' fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a compilation engagement with respect to those same financial statements, and our respective responsibilities.

Sincerely yours,

____

[*Signature of accountant or accountant's firm*]

Acknowledged and agreed on behalf of ABC Company by:

____

[*Signed*]

[*Name and Title*]

____

[*Date*]

[Revised, February 2015, to include additional required engagement letter elements.]

Illustration 3—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial statements subject to the compilation engagement.
- The financial statements will be prepared in accordance with the tax-basis of accounting.
- The accountant expects that his or her independence will not be impaired.

To the appropriate representative of management of ABC Company:[1]

You[2] have requested that we prepare the financial statements of ABC Company, which comprise the statement of assets, liabilities, and equity—tax-basis as of December 31, 20XX, and the related statements of operations and related earnings—tax-basis, and cash flows—tax-basis for the year then ended, and the related notes to the financial statements and perform a compilation engagement with respect to those financial statements.[3, 4] We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

Our Responsibilities

The objective of our engagement is to

a. prepare financial statements in accordance with the tax-basis of accounting based on information provided by you and

b. apply accounting and financial reporting expertise to assist you in the presentation 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 in order for them to be in accordance with the tax-basis of accounting.

We will conduct our compilation engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly,

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[1] The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph .A7.

[2] Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

[3] If the accountant is to be engaged to prepare financial statements that omit the statement of cash flows—tax-basis and the related notes and perform a compilation engagement with respect to those financial statements, the sentence may be revised to read, "You have requested that we prepare the financial statements of ABC Company, which comprise the statement of assets, liabilities, and equity—tax-basis as of December 31, 20XX, and the related statement of operations and retained earnings—tax-basis, and perform a compilation engagement with respect to those financial statements." The following additional sentence may then be added: "These financial statements will not include a statement of cash flows—tax-basis and related notes to the financial statements."

[4] The accountant may include nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping services.

we will not express an opinion, a conclusion, nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to prepare financial statements in accordance with the tax-basis of accounting and assist you in the presentation of the financial statements in accordance with the tax-basis of accounting. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

a. The selection of the tax-basis of accounting as the financial reporting framework to be applied in the preparation of the financial statements

b. The preparation and fair presentation of financial statements in accordance with the tax-basis of accounting

c. The inclusion of all informative disclosures that is appropriate for the tax-basis of accounting. This includes

  i. a description of the tax-basis of accounting, including a summary of significant accounting policies, and how the tax-basis of accounting differs from accounting principles generally accepted in the United States of America, the effects of which need not be quantified and

  ii. informative disclosures similar to those required by accounting principles generally accepted in the United States of America.[5]

d. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements

e. The prevention and detection of fraud

f. To ensure that the entity complies with the laws and regulations applicable to its activities

g. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the compilation engagement

h. To provide us with

  i. access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters

  ii. additional information that we may request from you for the purpose of the compilation engagement

  iii. unrestricted access to persons within the entity of whom we determine it necessary to make inquiries

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[5] The responsibility described in *c* need not be included if the financial statements omit substantially all disclosures required by the financial reporting framework.

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

You agree to include our accountant's compilation report in any document containing financial statements that indicates that we have performed a compilation engagement on such financial statements and, prior to inclusion of the report, to ask our permission to do so.

Other Relevant Information

Our fees for these services. . . .

[*The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, 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):*

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorneys' fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and perform a compilation engagement with respect to those same financial statements and our respective responsibilities.

Sincerely yours,

____

[*Signature of accountant or accountant's firm*]

Acknowledged and agreed on behalf of ABC Company by:

____

[*Signed*]

[*Name and Title*]

____

[*Date*]

[Revised, February 2015, to include additional required engagement letter elements.]

.A43

Exhibit B—Illustrative Examples of the Accountant's Compilation Report on Financial Statements (Ref: par. .A22, .A30, .A32, and .A34)

Illustration 1—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

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

[*Accountant's city and state*]

[*Date of the accountant's report*]

Illustration 2—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the statements of financial position as of December 31, 20X2 and 20X1 and the related statements of operations and cash flows for the years then ended, and the related notes to the financial statements in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, and for determining that the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities is an acceptable financial reporting framework. I (We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

I (We) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

[*Accountant's city and state*]

[*Date of the accountant's report*]

Illustration 3—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the Tax-Basis of Accounting, and Management Has Elected to Omit Substantially All Disclosures Ordinarily Included in Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

Management is responsible for the accompanying financial statements of XYZ Partnership, which comprise the statements of assets, liabilities, and partners' capital—tax-basis as of December 31, 20X2 and 20X1 and the related statements of revenue and expenses—tax-basis, and changes in partners' capital—tax-basis for the years then ended in accordance with the tax-basis of accounting, and for determining that the tax-basis of accounting is an acceptable financial reporting framework. I (We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The financial statements are prepared in accordance with the tax-basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Management has elected to omit substantially all the disclosures ordinarily included in financial statements prepared in accordance with the 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.

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

[*Accountant's city and state*]

[*Date of the accountant's report*]

Illustration 4—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant's Independence Is Impaired, and the Accountant Determines to Not Disclose the Reasons for the Independence Impairment

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

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

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

[*Accountant's city and state*]

[*Date of the accountant's report*]

Illustration 5—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities When the Accountant's Independence Has Been Impaired Due to the Accountant Having a Financial Interest in the Entity, and the Accountant Decides to Disclose the Reason for the Independence Impairment

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the statements of financial position as of December 31, 20X2 and 20X1, and the related statements of operations and cash flows for the years then ended, and the related notes to the financial statements in accordance with the AICPA's Financial Reporting Framework for Small- and

Medium-Sized Entities, and for determining that the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities is an acceptable financial reporting framework. I (We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

I (We) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

I am (we are) not independent with respect to XYZ Company as during the year ended December 31, 20X2, I (a member of the engagement team) had a direct financial interest in XYZ Company.

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

[*Accountant's city and state*]

[*Date of the accountant's report*]

Illustration 6—An Accountant's Compilation Report on Comparative Financial Statements, and the Accountant Is Aware of Departures From Accounting Principles Generally Accepted in the United States of America

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these 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 XYZ 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.

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

[*Accountant's city and state*]

[*Date of the accountant's report*]

AR-C Section 90

Review of Financial Statements

Source: SSARS No. 21

Effective for reviews of financial statements for periods ending on or after December 15, 2015.

Introduction

Scope and Applicability of This Section

.01 This section addresses the accountant's responsibilities when engaged to review financial statements. This section may also be applied, as necessary in the circumstances, to engagements to review other historical financial information. (Ref: par. .A1–.A2)

.02 This section does not apply when the accountant is engaged to review interim financial information when

- *a.* the entity's latest annual financial statements have been audited by the accountant or a predecessor;
- *b.* the accountant either
    - i. has been engaged to audit the entity's current year financial statements or
    - ii. audited the entity's latest annual financial statements and, in situations in which it is expected that the current year financial statements will be audited, the engagement of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review; and
- *c.* the entity prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the annual financial statements.

AU-C section 930, *Interim Financial Information*, provides guidance for review engagements when the conditions in *a–c* are met.

Effective Date

.03 This section is effective for reviews of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

Objective

.04 The objective of the accountant when performing a review of financial statements is to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework, primarily through the performance of inquiry and analytical procedures. (Ref: par. .A3–.A8)

Definitions

.05 For purposes of Statements on Accounting and Review Standards (SSARSs), the following terms have the meanings attributed as follows:

Analytical procedures. Evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such investigation, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Applicable financial reporting framework. The financial reporting framework adopted by management and, when appropriate, those charged with governance in the preparation and fair presentation 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.

Designated accounting standard-setter. A body designated by the Council of the AICPA to promulgate accounting principles generally accepted in the United States of America pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

Designated accounting standard-setter. A body designated by the Council of the AICPA to promulgate accounting principles generally accepted in the United States of America pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

Emphasis-of-matter paragraph. A paragraph included in the accountant's review report that is required by SSARSs, or is included at the accountant's discretion, and that refers to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to the users' understanding of the financial statements.

Error. Mistakes in the financial statements, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including inadequate disclosures.

Experienced accountant. An individual (whether internal or external to the firm) who has practical review experience and a reasonable understanding of

a. review processes;

b. SSARSs and applicable legal and regulatory requirements;

c. the business environment in which the entity operates; and

d. review and financial reporting issues relevant to the entity's industry.

Financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements (for example, accounting principles generally accepted in the United States of America [U.S. GAAP], International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework).

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.

Fraud. An intentional act that results in a misstatement in financial statements.

Generally accepted accounting principles (GAAP). References to GAAP in SSARSs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

Historical financial information. Information expressed in financial terms regarding a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

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.

Misstatement. A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Misstatements can arise from fraud or error.

Misstatements also include those adjustments of amounts, classifications, presentations, or disclosures that, in the accountant's professional judgment, are necessary for the financial statements to be presented fairly, in all material respects.

Noncompliance. Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into, by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. *Noncompliance* does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management, or employees of the entity.

Other-matter paragraph. A paragraph included in the accountant's review report that is required by SSARSs, or is included at the accountant's discretion, and that refers to a matter other than those presented or disclosed in the financial statements that, in the accountant's professional judgment, is relevant to users' understanding of the review, the accountant's responsibilities, or the accountant's review report.

Report release date. The date the accountant grants the entity permission to use the accountant's review report in connection with the financial statements.

Required supplementary information. Information that a designated accounting standards-setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standards-setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of the information have been established.

Review documentation. The record of review procedures performed, relevant review evidence obtained, and conclusions the accountant reached (terms such as *working papers* or *workpapers* are also sometimes used).

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

Special purpose framework. A financial reporting framework other than GAAP that is one of the following bases of accounting:

a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).

b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.

c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission). (Ref: par. .A9)

d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.

e. **Other-basis.** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

The cash-basis, tax-basis, regulatory-basis, and other-basis of accounting are commonly referred to as *other comprehensive bases of accounting*.

Specified parties. The intended users of the accountant's review report.

Subsequent events. Events occurring between the date of the financial statements and the date of the accountant's review report.

Subsequently discovered facts. Facts that become known to the accountant after the date of the accountant's review report that, had they been known to the accountant at that date, may have caused the accountant to revise the accountant's review report.

Supplementary information. Information presented outside the basic financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework.

Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel (for example, executive members of a governance board or an owner-manager).

Updated report. A report issued by a continuing accountant that takes into consideration information that the accountant becomes aware of during the accountant's current engagement and that re-expresses the accountant's previous conclusions or, depending on the circumstances, expresses different conclusions on the financial statements of a prior period reviewed by the accountant as of the date of the accountant's current report.

Written representation. A written statement by management provided to the accountant to confirm certain matters or to support other review evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

Requirements

General Principles for Performing and Reporting on Review Engagements

.06 In addition to complying with this section, an accountant is required to comply with section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*.

Independence

.07 The accountant must be independent of the entity when performing a review of financial statements in accordance with SSARSs. If, during the performance of the review engagement, the accountant determines that the accountant's independence is impaired, the accountant should withdraw from the review engagement. (Ref: par. .A10–.A11)

Acceptance and Continuance of Client Relationships and Review Engagements

.08 The accountant should not accept a review engagement if, in addition to the requirements in paragraph .24 of section 60, management or those charged with governance impose a limitation on the scope of the accountant's work in terms of a proposed review engagement such that the accountant believes the limitation will result in the accountant being unable to perform review procedures to provide an adequate basis for issuing a review report.

.09 As a condition for accepting an engagement to review an entity's financial statements, in addition to the requirements in paragraph .25 of section 60, the accountant should obtain the agreement of management that it acknowledges and understands its responsibility

a. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and the inclusion of all informative disclosures that are appropriate for the applicable financial reporting framework used to prepare the entity's financial statements. If the financial statements are prepared in accordance with a special purpose framework, this includes (Ref: par. .A12)

   i. a description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from GAAP, the effect of which need not be quantified, and informative disclosures similar to those required by GAAP in the case of special purpose financial statements that contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, (Ref: par. .A78)

   ii. a description of any significant interpretations of the contract on which the special purpose financial statements are prepared in the case of financial statements prepared in accordance with a contractual-basis of accounting, and

   iii. additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation.

b. to provide the accountant, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

c. to include the accountant's review report in any document containing financial statements that indicates that such financial statements have been reviewed by the entity's accountant unless a different understanding is reached. (Ref: par. .A13)

.10 If the accountant is not satisfied about any of the matters set out in paragraph .25 of section 60 or paragraph .09 of this section as preconditions for accepting a review engagement, the accountant should discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the accountant about those matters, the accountant should not accept the proposed engagement.

Agreement on Engagement Terms

.11 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement and should include the following: (Ref: par. .A14–.A19)

a. The objectives of the engagement

b. The responsibilities of management set forth in paragraph .25*c* of section 60 and paragraph .09 of this section

c. The responsibilities of the accountant

d. The limitations of a review engagement

e. Identification of the applicable financial reporting framework for the preparation of the financial statements *f.* The expected form and content of the accountant's review report and a statement that there may be circumstances in which the report may differ from its expected form and content

.12 The engagement letter or other suitable form of written communication should be signed by

a. the accountant or the accountant's firm and

b. management or those charged with governance, as appropriate. (Ref: par. .A15)

Communication With Management and Those Charged With Governance

.13 The accountant should communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review engagement that, in the accountant's professional judgment, are of significant importance to merit the attention of management or those charged with governance, as appropriate. (Ref: par. .A20–.A26)

Understanding of the Industry

.14 To perform the review engagement, the accountant should possess or obtain an understanding of the industry in which the entity operates, including the accounting principles and practices generally used in the industry, sufficient to enable the accountant to review financial statements that are appropriate for an entity operating in that industry. (Ref: par. .A27)

Knowledge of the Entity

.15 The accountant should obtain knowledge about the entity, including an understanding of

a. the entity's business and

b. the accounting principles and practices used by the entity

sufficient to identify areas in the financial statements where there is a greater likelihood that material misstatements may arise and to be able to design procedures to address those areas. (Ref: par. .A28–.A29)

.16 In obtaining the understanding of the entity's accounting policies and practices, the accountant should be alert to accounting policies and procedures that, based on the accountant's knowledge of the industry, are unusual.

Designing and Performing Review Procedures

.17 The accountant should design and perform analytical procedures and make inquiries and perform other procedures, as appropriate, to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework based on the accountant's (Ref: par. .A30)

a. understanding of the industry,

b. knowledge of the entity, and

c. awareness of the risk that the accountant may unknowingly fail to modify the accountant's review report on financial statements that are materially misstated. (Ref: par. .A31)

.18 The accountant should focus the analytical procedures and inquiries in those areas where the accountant believes there are increased risks of material misstatements.

Analytical Procedures

.19 The accountant should apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement. Such analytical procedures should include the following: (Ref: par. .A32–.A34)

a. Comparing the financial statements with comparable information for the prior period, giving consideration to knowledge about changes in the entity's business and specific transactions

b. Considering plausible relationships among both financial and, when relevant, nonfinancial information (Ref: par. .A35)

c. Comparing recorded amounts or ratios developed from recorded amounts to expectations developed by the accountant through identifying and using relationships that are reasonably expected to exist, based on the accountant's understanding of the entity and the industry in which the entity operates (Ref: par. .A36)

d. Comparing disaggregated revenue data, as applicable (Ref: par. .A37)

.20 When designing and performing analytical procedures, the accountant should (Ref: par. .A38)

a. determine the suitability of particular analytical procedures;

b. consider the reliability of data from which the accountant's expectation of recorded amounts or ratios is developed, taking into account the source, comparability, and nature and relevance of information available;

c. develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to provide the accountant with limited assurance that a misstatement will be identified that, either individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and

d. determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph .21 and compare the recorded amounts, or ratios developed from recorded amounts, with the expectations.

Investigating Results of Analytical Procedures

.21 If analytical procedures 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 such differences by

a. inquiring of management and

b. performing other review procedures if considered necessary in the circumstances. (Ref: par. .A39)

Inquiries of Members of Management Who Have Responsibility for Financial and Accounting Matters

.22 The accountant should inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about (Ref: par. .A40)

a. whether the financial statements have been prepared and fairly presented in accordance with the applicable financial reporting framework consistently applied.

b. unusual or complex situations that may have an effect on the financial statements. (Ref: par. .A41)

c. significant transactions occurring or recognized during the period, particularly those in the last several days of the period.

d. the status of uncorrected misstatements identified during the previous review (that is, whether adjustments had been recorded subsequent to the periods covered by the prior review and, if so, the amounts recorded and period in which such adjustments were recorded).

e. matters about which questions have arisen in the course of applying the review procedures.

f. events subsequent to the date of the financial statements that could have a material effect on the fair presentation of such financial statements.

g. its knowledge of any fraud or suspected fraud affecting the entity involving

   i. management,

   ii. employees who have significant roles in internal control, or

   iii. others, when the fraud could have a material effect on the financial statements. (Ref: par. .A42)

h. whether management is aware of allegations of fraud or suspected fraud affecting the entity communicated by employees, former employees, regulators, or others.

i. whether management has disclosed to the accountant all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

j. significant journal entries and other adjustments.

k. communications from regulatory agencies, if applicable.

l. related parties and significant new related party transactions.

m. any litigation, claims, and assessments that existed at the date of the balance sheet being reported on and during the period from the balance sheet date to the date of management's response to the accountant's inquiry.

n. whether management believes that significant assumptions used by it in making accounting estimates are reasonable.

o. 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. (Ref: par. .A43)

p. any other matters that the accountant may consider necessary.

.23 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. However, the accountant is not required to corroborate management's responses with other evidence.

Reading the Financial Statements

.24 The accountant should read the financial statements and consider whether any information has come to the accountant's attention to indicate that such financial statements do not conform to the applicable financial reporting framework.

Using the Work of Other Accountants

.25 If other accountants have issued a report on the financial statements of significant components, such as subsidiaries and investees, the accountant should obtain and read reports from such other accountants.

Reconciling the Financial Statements to the Underlying Accounting Records

.26 The accountant should obtain evidence that the financial statements agree or reconcile with the accounting records. (Ref: par. .A44)

Evaluating Evidence Obtained From the Procedures Performed

.27 The accountant should accumulate misstatements, including inadequate disclosure, identified by the accountant in performing the review procedures or brought to the accountant's attention during the performance of the review.

.28 The accountant should evaluate, individually and in the aggregate, misstatements, including inadequate disclosure, accumulated in accordance with paragraph .27 to determine whether material modification should be made to the financial statements for them to be in accordance with the applicable financial reporting framework. (Ref: par. .A5 and .A45–.A46)

.29 If, during the performance of review procedures, the accountant becomes aware that information coming to the accountant's attention is incorrect, incomplete, or otherwise unsatisfactory, the accountant should

a. request that management consider the effect of those matters on the financial statements and communicate the results of its consideration to the accountant and

b. consider the results communicated to the accountant by management and whether such results indicate that the financial statements may be materially misstated.

.30 If the accountant believes that 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 accordance with the applicable financial reporting framework.

.31 The accountant should evaluate whether sufficient appropriate review evidence has been obtained from the procedures performed and, if not, the accountant should perform other procedures judged by the accountant to be necessary in the circumstances to be able to form a conclusion on the financial statements. (Ref: par. .A47)

Written Representations

Written Representations as Review Evidence

.32 *Written representations* are necessary information that the accountant requires in connection with a review of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are review evidence. (Ref: par. .A48)

Management From Whom Written Representations Are Requested

.33 The accountant should request written representations from members of management who have appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Ref: par. .A49–.A51)

Specific Written Representations

.34 For all financial statements presented and all periods covered by the review, the accountant should request management to provide written representations that are dated as of the date of the accountant's review report stating that (Ref: par. .A52–.A58)

- *a.* management has fulfilled its responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, as set out in the terms of the engagement.
- *b.* management acknowledges its responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements, including its responsibility to prevent and detect fraud.
- *c.* management has provided the accountant with all relevant information and access, as agreed upon in the terms of the engagement.
- *d.* management has responded fully and truthfully to all of the accountant's inquiries
- *e.* all transactions have been recorded and are reflected in the financial statements.
- *f.* management has disclosed to the accountant its knowledge of fraud or suspected fraud affecting the entity involving
  - i. management,
  - ii. employees who have significant roles in internal control, or
  - iii. others, when the fraud could have a material effect on the financial statements.
- *g.* management has disclosed to the accountant its knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- *h.* management has disclosed to the accountant all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

i. whether management believes that the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the financial statements as a whole. A summary of such items should be included in, or attached to, the written representation.

j. management has disclosed to the accountant all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements, and it has appropriately accounted for and disclosed such litigation and claims in accordance with the applicable financial reporting framework.

k. whether management believes that significant assumptions used by it in making accounting estimates are reasonable.

l. management has disclosed to the accountant the identity of the entity's related parties and all of the related party relationships and transactions of which it is aware, and it has appropriately accounted for and disclosed such relationships and transactions.

m. all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

.35 If, in addition to the representations required by paragraph .34, the accountant determines that it is necessary to obtain one or more written representations to support other review evidence relevant to the financial statements, the accountant should request such other written representations. (Ref: par. .A59)

Form of Written Representations

.36 The written representations should be in the form of a representation letter addressed to the accountant. (Ref: par. .A60–.A61)

Concerns About the Reliability of Written Representations and Requested Written Representations Not Provided

.37 If, in relation to the written representations required by paragraphs .34–.35

a. management does not provide the written representations, or

b. the accountant concludes that there is cause to doubt management's integrity such that the written representations provided are not reliable

the accountant should discuss the matter with management and those charged with governance, as appropriate. If management does not provide the required representations or the accountant continues to doubt management's integrity such that the written representations provided may not be reliable, the accountant should withdraw from the engagement.

Reporting on the Financial Statements

.38 The accountant's review report should be in writing. (Ref: par. .A62–.A64)

Accountant's Review Report

.39 The written review report should include (Ref: par. .A77)

a. a title that includes the word *independent* to clearly indicate that it is the report of an independent accountant. (Ref: par. .A65) *b.* an addressee, as appropriate for the circumstances of the engagement. (Ref: par. .A66)

c. an introductory paragraph that (Ref: par. .A67–.A69)

i. identifies the entity whose financial statements have been reviewed,

ii. states that the financial statements identified in the report were reviewed,

iii. identifies the financial statements,

iv. specifies the date or period covered by each financial statement,

v. includes a statement that a review includes primarily applying analytical procedures to management's (owner's) financial data and making inquiries of company management (owners), and

vi. includes 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. a section with the heading "Management's Responsibility for the Financial Statements" that includes an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework. (Ref: par. .A70)

e. a section with the heading "Accountant's Responsibility" that includes the following statements:

i. The accountant's responsibility is to conduct the review engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA. The accountant's review report should also explain that those standards require that the accountant perform the procedures to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework. (Ref: par. .A71–.A73)

ii. The accountant believes that the review evidence the accountant has obtained is sufficient and appropriate to provide a basis for the accountant's conclusion.

f. a concluding section with an appropriate heading that includes a statement about whether the accountant is aware of any material modifications that should be made to the accompanying financial statements for them to be in accordance with the applicable financial reporting framework and that identifies the country of origin of those accounting principles, if applicable. (Ref: par. .A46)

g. the manual or printed signature of the accountant's firm.

h. the city and state where the accountant practices. (Ref: par. .A74) *i.* the date of the review report, which should be dated no earlier than the date on which the accountant completed procedures sufficient to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework, including evidence that

   i. all the statements that the financial statements comprise, including the related notes, have been prepared and

   ii. management has asserted that they have taken responsibility for those financial statements. (Ref: par. .A75–.A76)

Accountant's Review Report on Financial Statements Prepared in Accordance With a Special Purpose Framework

.40 The accountant should modify the review report when the accountant becomes aware that the financial statements do not include

a. a description of the special purpose framework. (Ref: par. .A78)

b. a summary of significant accounting policies.

c. an adequate description about how the special purpose framework differs from GAAP. The effects of these differences need not be quantified. (Ref: par. .A79)

d. informative disclosures similar to those required by GAAP when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP. (Ref: par. .A80)

.41 In the case of financial statements prepared in accordance with a contractual-basis of accounting, the accountant should modify the review report if the financial statements do not adequately describe any significant interpretations of the contract on which the financial statements are based.

.42 The accountant's review report on financial statements prepared in accordance with a special purpose framework should

a. make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when management has a choice of financial reporting frameworks in the preparation of such financial statements.

b. describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information when the financial statements are prepared in accordance with a regulatory- or contractual-basis of accounting. (Ref: par. .A81)

.43 The accountant's review report on financial statements prepared in accordance with a special purpose framework should include an emphasis-of-matter paragraph, under an appropriate heading, that

a. indicates that the financial statements are prepared in accordance with the applicable special purpose framework,

b. refers to the note to the financial statements that describes the framework, and

c. states that the special purpose framework is a basis of accounting other than GAAP.

.44 The accountant's review report on special purpose financial statements should include, in accordance with paragraph .54, an other-matter paragraph, under an appropriate heading, that, in accordance with paragraphs .61–.62, restricts the use of the accountant's review report when the special purpose financial statements are prepared in accordance with (Ref: par. .A82)

a. a contractual-basis of accounting,

b. a regulatory-basis of accounting, or

c. an other-basis of accounting when required pursuant to paragraph .61*a*–*b*.

Comparative Financial Statements

.45 Comparative financial statements may be required by the applicable financial reporting framework, or management may elect to provide such information. When comparative financial statements are presented, the accountant's report should refer to each period for which financial statements are presented. (Ref: par. .A83–.A84)

Updating the Report

.46 When reporting on all periods presented, a continuing accountant should update the report on one or more prior periods presented on a comparative basis with those of the current period. The accountant's report on comparative financial statements should not be dated earlier than the date that the accountant completed procedures sufficient to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework with respect to the current period. (Ref: par. .A85)

.47 When issuing an updated report, the continuing accountant should consider information that the accountant has become aware of during the review of the current period financial statements.

.48 If, during the current engagement, circumstances or events come to the accountant's attention that may affect the prior-period financial statements presented, the accountant should consider the effects on the review report.

Changed Reference to a Departure From the Applicable Financial Reporting Framework

.49 When the accountant's report on the financial statements of the prior period contains a changed reference to a departure from the applicable financial reporting framework, the accountant's review report should include an other-matter paragraph indicating (Ref: par. .A86)

a. the date of the accountant's previous review 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.

Reporting When One Period Is Audited

.50 When the prior period financial statements were audited and the auditor's report on the prior period financial statements is not reissued, the review report on the current period financial statements should include an other-matter paragraph indicating *a.* that the financial statements of the prior period were previously audited;

b. the date of the auditor's report on the prior period financial statements;

c. the type of opinion issued on the prior period financial statements;

d. if the opinion was modified, the substantive reasons for the modification; and

e. that no auditing procedures were performed after the date of the previous report.

Communicating to Management and Others Regarding Fraud or Noncompliance With Laws and Regulations

.51 If the accountant becomes aware that fraud (including misappropriation of assets) may have occurred, the accountant should communicate the matter as soon as practicable to the appropriate level of management (at a level above those involved with the suspected fraud, if possible). If the accountant becomes aware of matters involving identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements, the accountant should communicate the matters to management, other than when matters are clearly inconsequential. If the fraud or noncompliance with laws or regulations involves senior management or results in a material misstatement of the financial statements, the accountant should communicate the matter directly to those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that (Ref: par. .A87–.A89)

a. the financial statements are not materially misstated due to fraud or

b. the entity is in compliance with laws and regulations, and in the accountant's professional judgment, the effect of the suspected noncompliance may be material to the financial statements

the accountant should consider the need to obtain legal advice and take appropriate action, including potential withdrawal. (Ref: par. .A90)

Emphasis-of-Matter and Other-Matter Paragraphs in the Accountant's Review Report

Emphasis-of-Matter Paragraphs in the Accountant's Review Report

.52 If the accountant considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the accountant should include an emphasis-of-matter paragraph in the accountant's review report, provided that the accountant does not believe that the financial statements may be materially misstated. Such a paragraph should refer only to information presented or disclosed in the financial statements. (Ref: par. .A91–.A93)

.53 When the accountant includes an emphasis-of-matter paragraph in the accountant's review report, the accountant should

a. include it immediately after the accountant's conclusion paragraph in the accountant's review report, *b.* use the heading "Emphasis of a Matter" or other appropriate heading, (Ref: par. .A94)

c. include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements, and

d. indicate that the accountant's conclusion is not modified with respect to the matter emphasized. (Ref: par. .A95)

Other-Matter Paragraphs in the Accountant's Review Report

.54 If the accountant considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the accountant's professional judgment, is relevant to the users' understanding of the review, the accountant's responsibilities, or the accountant's review report, the accountant should do so in a paragraph in the accountant's review report with the heading "Other Matter" or other appropriate heading. The accountant should include this paragraph immediately after the accountant's conclusion paragraph and any emphasis-of-matter paragraph. (Ref: par. .A91, .A94, and .A96–.A98)

Communication With Management

.55 If the accountant expects to include an emphasis-of-matter or other-matter paragraph in the accountant's review report, the accountant should communicate with management regarding this expectation and the proposed wording of this paragraph. (Ref: par. .A99–.A100)

Known Departures From the Applicable Financial Reporting Framework

.56 When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and if the financial statements are not revised, the accountant should consider whether modification of the standard report is adequate to disclose the departure.

.57 If the accountant concludes that modification of the standard report is adequate, the departure should be disclosed in a separate paragraph of the report under the heading "Known Departures From the [*identify the applicable financial reporting framework*]," including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known to the accountant as the result of the accountant's procedures. (Ref: par. .A101 and .A106)

.58 If the effects of the departure have not been determined by management or are not known to the accountant as a result of the accountant's procedures, the accountant is not required to determine the effects of a departure; however, in such circumstances, the accountant should state in the report that such determination has not been made.

.59 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. (Ref: par. .A102)

.60 The accountant should not modify the standard report to include a statement that the financial statements are not in accordance with the applicable financial reporting framework. (Ref: par. .A103–.A105)

Alert That Restricts the Use of the Accountant's Review Report

.61 An accountant's review report should include an alert, in a separate paragraph, that restricts its use when the subject matter of the accountant's review report is based on (Ref: par. .A107–.A109)

a. measurement or disclosure criteria that are determined by the accountant to be suitable only for a limited number of users who can be presumed to have an adequate understanding of the criteria or

b. measurement or disclosure criteria that are available only to the specified parties.

.62 The alert that restricts the use of the accountant's review report required by paragraph .61 should

a. state that the accountant's review report is intended solely for the information and use of the specified parties.

b. identify the specified parties for whom use is intended.

c. state that the accountant's review report is not intended to be, and should not be, used by anyone other than the specified parties. (Ref: par. .A110)

Adding Other Specified Parties

.63 When, in accordance with paragraph .61, the accountant includes an alert that restricts the use of the accountant's review report to certain specified parties and the accountant is requested to add other parties as specified parties, the accountant should determine whether to agree to add the other parties as specified parties. (Ref: par. .A111)

.64 If the other parties are added after the release of the accountant's review report, the accountant should either:

a. Amend the accountant's review report to add the other parties and, in such circumstances, not change the original date of the accountant's review report.

b. Provide a written acknowledgment to management and the other parties that such parties have been added as specified parties and state in the acknowledgment that no procedures were performed subsequent to the original date of the accountant's review report.

The Accountant's Consideration of an Entity's Ability to Continue as a Going Concern

Consideration of Conditions or Events That Indicate That There Could Be an Uncertainty About the Entity's Ability to Continue as a Going Concern

.65 The accountant should consider whether, during the performance of review procedures, evidence or information came to the accountant's attention indicating that there could be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time. A reasonable period of time is the same period of time required of management to assess going concern when specified by the applicable financial reporting framework. If the applicable financial reporting framework does not specify a period of time for management, a reasonable period is one year from the date of the financial statements being reviewed (hereinafter referred to as a *reasonable period of time*). (Ref: par. .A112)

Consideration of Financial Statement Effects

.66 If, after considering the evidence or information from paragraph .65, the accountant believes that there is an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, 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. (Ref: par. .A113)

.67 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 disclosure.

Consideration of the Effects on the Accountant's Review Report

.68 If the accountant determines that the entity's disclosures with respect to the entity's ability to continue as a going concern for a reasonable period of time are inadequate, a departure from the applicable financial reporting framework exists, and the accountant should follow the guidance in paragraphs .56–.60. (Ref: par. .A114–.A116)

Subsequent Events and Subsequently Discovered Facts

Subsequent Events

.69 When evidence or information that subsequent events that require adjustment of, or disclosure in, the financial statements comes to the accountant's attention, the accountant should request that management consider whether each such event is appropriately reflected in the financial statements in accordance with the applicable financial reporting framework. (Ref: par. .A117)

.70 If the accountant determines that the subsequent event is not adequately accounted for in the financial statements or disclosed in the notes, the accountant should follow the guidance in paragraphs .56–.60.

Subsequently Discovered Facts That Become Known to the Accountant Before the Report Release Date

.71 The accountant is not required to perform any review procedures regarding the financial statements after the date of the accountant's review report. However, if a subsequently discovered fact becomes known to the accountant before the report release date, the accountant should

a. discuss the matter with management and, when appropriate, those charged with governance and

b. determine whether the financial statements need revision and, if so, inquire how management intends to address the matter in the financial statements.

.72 If management revises the financial statements, the accountant should perform the review procedures necessary in the circumstances on the revision. The accountant also should either

a. date the accountant's review report as of a later date or

b. include an additional date in the accountant's review report on the revised financial statements that is limited to the revision (that is, dual-date the accountant's review report for that revision), thereby indicating that the accountant's review procedures subsequent to the original date of the accountant's review report are limited solely to the revision of the financial statements described in the relevant note to the financial statements.

.73 If management does not revise the financial statements in circumstances when the accountant believes they need to be revised, the accountant should modify the accountant's review report, as appropriate.

Subsequently Discovered Facts That Become Known to the Accountant After the Report Release Date

.74 If a subsequently discovered fact becomes known to the accountant after the report release date, the accountant should (Ref: par. .A118–.A119)

a. discuss the matter with management and, when appropriate, those charged with governance and

b. determine whether the financial statements need revision and, if so, inquire how management intends to address the matter in the financial statements.

.75 If management revises the financial statements, the accountant should

a. apply the requirements of paragraph .72.

b. if the reviewed financial statements (before revision) have been made available to third parties, assess whether the steps taken by management are timely and appropriate to ensure that anyone in receipt of those financial statements is informed of the situation, including that the reviewed financial statements are not to be used. If management does not take the necessary steps, the accountant should apply the requirements of paragraph .76. (Ref: par. .A120)

c. if the accountant's conclusion on the revised financial statements differs from the accountant's conclusion on the original financial statements, disclose in an emphasis-of-matter paragraph, in accordance with paragraphs .52–.53

   i. the date of the accountant's previous report,

   ii. a description of the revisions, and

   iii. the substantive reasons for the revisions.

.76 If management does not revise the financial statements in circumstances when the accountant believes they need to be revised, then

a. if the reviewed financial statements have not been made available to third parties, the accountant should notify management and those charged with governance, unless all of those charged with governance are involved in managing the entity, not to make the reviewed financial statements available to third parties before the necessary revisions have been made and a new accountant's review report on the revised financial statements has been provided. If the reviewed financial statements are, nevertheless, subsequently made available to third parties without the necessary revisions, the accountant should apply the requirements of paragraph .76*b*.

b. if the reviewed financial statements have been made available to third parties, the accountant should assess whether the steps taken by management are timely and appropriate to ensure that anyone in receipt of the reviewed financial statements is informed of the situation, including that the reviewed financial statements are not to be used. If management does not take the necessary steps, the accountant should apply the requirements of paragraph .77. (Ref: par. .A118)

.77 If management does not take the necessary steps to ensure that anyone in receipt of the financial statements is informed of the situation, as provided by paragraph .75*b* or paragraph .76*b*, the accountant should notify management and those charged with governance, unless all of those charged with governance are involved in managing the entity, that the accountant will seek to prevent future use of the accountant's review report. If, despite such notification, management or those charged with governance do not take the necessary steps, the accountant should take appropriate action to seek to prevent use of the accountant's review report. (Ref: par. .A121–.A124)

Reference to the Work of Other Accountants in an Accountant's Review Report

.78 If other accountants audited or reviewed the financial statements of significant components, such as consolidated and unconsolidated subsidiaries and investees, and the accountant of the reporting entity decides not to assume responsibility for the audit or review performed by the other accountants, the accountant of the reporting entity should make reference to the review or audit of such other accountants in the accountant's review report. In that instance, the accountant should clearly indicate in the accountant's review report that the accountant used the work of other accountants and should include the magnitude of the portion of the financial statements audited or reviewed by the other accountants. (Ref: par. .A125–.A127)

.79 Regardless of whether the accountant of the reporting entity decides to make reference to the review or audit of other accountants, the accountant of the reporting entity should communicate with the other accountants and ascertain

a. that the other accountants are aware that the financial statements of the component that the other accountants have audited or reviewed are to be included in the financial statements on which the accountant of the reporting entity will report and that the other accountants' report thereon will be relied upon (and, where applicable, referred to) by the accountant of the reporting entity.

b. that the other accountants are familiar with the applicable financial reporting framework and with SSARSs or auditing standards generally accepted in the United States of America, as applicable, and will conduct the review or audit in accordance therewith.

c. that a review will be made of matters affecting elimination of intercompany transactions and accounts and, if appropriate in the circumstances, the uniformity of accounting practices among the components included in the financial statements.

Supplementary Information That Accompanies Reviewed Financial Statements

.80 When supplementary information accompanies reviewed financial statements and the accountant's review report thereon, the accountant should clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information in either (Ref: par. .A128)

a. an other-matter paragraph in the accountant's review report on the financial statements or

b. a separate report on the supplementary information

.81 When the accountant has reviewed both the financial statements and the supplementary information, the other-matter paragraph in the accountant's review report on the financial statements or the separate report on the supplementary information should state that (Ref: par. .A129 and .A131)

a. the information is presented for purposes of additional analysis and is not a required part of the financial statements;

b. the information is the representation of management;

c. the accountant has reviewed the information, and, based on the accountant's review, whether the accountant is aware of any material modifications that should be made to the information in order for it to be in accordance with the applicable financial reporting framework; and

d. the accountant has not audited the information and, accordingly, does not express an opinion on such information.

.82 When the accountant has reviewed the financial statements but not the supplementary information, the other-matter paragraph in the accountant's review report on the financial statements or the separate report on the supplementary information should state that (Ref: par. .A130–.A131)

a. the information is presented for purposes of additional analysis and is not a required part of the financial statements;

b. the information is the representation of management; and

c. the accountant has not audited or reviewed the information and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on such information.

Required Supplementary Information

.83 Concerning the requirement in paragraph .80, with respect to required supplementary information, the accountant should include an other-matter paragraph in the accountant's review report on the financial statements. The other matter-paragraph should include language to explain the following circumstances, as applicable: (Ref: par. .A132)

a. The required supplementary information is included, and the accountant performed a compilation engagement on the required supplementary information.

b. The required supplementary information is included, and the accountant reviewed the required supplementary information.

c. The required supplementary information is included, and the accountant did not perform a compilation, review, or audit on the required supplementary information.

d. The required supplementary information is omitted.

e. Some required supplementary information is missing, and some is presented in accordance with the prescribed guidelines (Ref: par. .A133)

f. The accountant has identified departures from the prescribed guidelines.

g. The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

.84 If the entity has presented all or some of the required supplementary information and the accountant did not perform a compilation or review on the required supplementary information, the other-matter paragraph referred to in paragraph .80 should include the following elements: (Ref: par. .A134)

a. A statement that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that the [*identify the required supplementary information*] be presented to supplement the basic financial statements

b. A statement that such information, although not a part of the basic financial statements, is required by [*identify designated accounting standards-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

c. A statement that the accountant did not perform a compilation, review, or audit on the required supplementary information and, accordingly, does not express an opinion or provide any assurance on the information

d. If some of the required supplementary information is omitted

i. a statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements

ii. a statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

e. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]

f. If the accountant has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that the accountant has doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [*identify designated accounting standards-setter*]

.85 If all the required supplementary information is omitted, the other-matter paragraph should include the following elements:

a. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements

b. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

Change in Engagement From Audit to Review

.86 If the accountant, who was engaged to perform an audit engagement in accordance with generally accepted auditing standards, has been requested to change the engagement to a review engagement, the accountant should consider the following before deciding whether to agree to the change: (Ref: par. .A135–.A136)

a. The reason given for the request, particularly the implications of a restriction on the scope of the audit engagement, whether imposed by management or by circumstances (Ref: par. .A137)

b. The additional audit effort required to complete the audit engagement

c. The estimated additional cost to complete the audit engagement

.87 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.

.88 If the accountant concludes, based upon the accountant's professional judgment, that reasonable justification exists to change the engagement, and if the accountant complies with the standards applicable to a review engagement, the accountant should issue an appropriate review report.

.89 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.

.90 When the accountant has been engaged to audit an entity's financial statements and management refuses to allow the accountant to correspond with the entity's legal counsel, the accountant, except in rare circumstances, is precluded from accepting an engagement to review those financial statements.

Review Documentation

.91 The accountant should prepare review documentation that is sufficient to enable an experienced accountant, having no previous connection to the review, to understand (Ref: par. .A138–.A142)

a. the nature, timing, and extent of the review procedures performed to comply with SSARSs;

b. the results of the review procedures performed and the review evidence obtained; and

c. significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

.92 In addition to the requirements in paragraph .91, the review documentation should include the following:

a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs .11–.12 (Ref: par. .A17 and .A19)

b. Communications to management and others regarding fraud or noncompliance with laws and regulations as required by paragraph .51

c. Communications with management regarding the accountant's expectation to include an emphasis-of-matter or other-matter paragraph in the accountant's review report as required by paragraph .55

d. Communications with other accountants that have audited or reviewed the financial statements of significant components as required by paragraph .79

e. The representation letter

f. A copy of the reviewed financial statements and the accountant's review report thereon

Application and Other Explanatory Material

Scope and Applicability of This Section (Ref: par. .01)

.A1 Examples of other historical financial information that an accountant may be engaged to review include, but are not limited to, the following:

- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
- Supplementary information
- Required supplementary information
- Financial information contained in a tax return

.A2 The accountant may review a single financial statement, such as a balance sheet, and not other related financial statements, such as the statements of income, retained earnings, and cash flows, if the scope of the accountant's inquiry and analytical procedures have not been restricted.

Objective (Ref: par. .04 and .28)

.A3 A review differs significantly from an audit of financial statements in which the auditor obtains reasonable assurance, which is a high, but not absolute level of 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; 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 as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework.

Materiality

.A4 The accountant's consideration of materiality is made in the context of the applicable financial reporting framework. Some financial reporting frameworks 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.

.A5 If present in the applicable financial reporting framework, a discussion of the concept of materiality provides a frame of reference to the accountant in determining, as required by paragraph .28, whether there are any material modifications that should be made to the financial statements in order for the statements to be in accordance 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 .A4 provide the accountant with such a frame of reference.

.A6 The accountant's determination of materiality is a matter of professional judgment and is affected by the accountant's perception of the needs of the intended users of the financial statements. In this context, it is reasonable for the accountant to assume that users

- 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;
- understand that financial statements are prepared, presented, and reviewed to levels of materiality;
- recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
- make reasonable economic decisions on the basis of the information in the financial statements.

Further, unless the review engagement is undertaken for financial statements that are intended to meet the particular needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

.A7 The accountant's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by the accountant as a basis for expressing a conclusion on the financial statements.

Revising Materiality

.A8 The accountant's determination of materiality for the financial statements as a whole may need to be revised during the engagement as a result of

- a change in the circumstances that occurred during the review (for example, a decision to dispose of a major part of the entity's business).
- new information, or a change in the accountant's understanding of the entity and its environment as a result of performing review procedures (for example, if during the review it appears actual financial results are likely to be substantially different from anticipated period-end financial results that were used initially to consider materiality for the financial statements as a whole).

Definitions (Ref: par. .05)

.A9 Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on GAAP but does not comply with all of the requirements of GAAP. Such frameworks are regulatory-bases of accounting, as defined in paragraph .05. In some circumstances, however, the cash- or tax-basis of accounting may be permitted by a regulator. For purposes of this section, the cash-and tax-bases of accounting are not regulatory-bases of accounting.

Independence (Ref: par. .07)

.A10 The AICPA Code of Professional Conduct provides guidance with respect to independence.

.A11 Nothing prohibits an accountant who is unable to complete a review engagement due to a determination that the accountant's independence is impaired from performing a compilation engagement on those financial statements.

Acceptance and Continuance of Client Relationships and Review Engagements (Ref: par. .09)

.A12 A review in accordance with SSARSs is conducted on the premise that management has acknowledged and understands that it has the responsibility set out in paragraph .25*c* of section 60. The preparation of financial statements, in whole or in part, is a nonattest service subject to the provisions of the "Nonattest Services" subtopic of the "Independence Rule" (ET sec. 1.295) of the AICPA Code of Professional Conduct. To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and documenting the terms of the review engagement as required by paragraphs .11–.12.

.A13 Documents containing financial statements that may include an indication that such financial statements have been reviewed by the entity's accountant includes documents submitted to bonding companies.

Agreement on Engagement Terms (Ref: par. .11–.12 and .92)

.A14 Both management and the accountant have an interest in documenting the agreed-upon terms of the review engagement before the commencement of the review engagement to help avoid misunderstandings with respect to the review engagement. For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or perform certain functions, including those that are management's responsibility.

.A15 The roles of management and those charged with governance in agreeing upon the terms of the review engagement for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity's structure, the agreement may be with management, those charged with governance, or both. When the agreement on the terms of engagement is only with those charged with governance, nonetheless, in accordance with paragraph .25*c* of section 60, the accountant is required to obtain management's agreement that it acknowledges and understands its responsibilities.

.A16 When a third party has contracted for a review of the entity's financial statements, agreeing the terms of the review with management of the entity is necessary in order to establish that the preconditions for a review are present.

.A17 A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for review engagements is required by paragraph .11 to be in a documented form, and, accordingly, a verbal understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for review engagements.

.A18 Although the accountant may prepare the financial statements, in whole or in part, the financial statements are representations of management, and the fairness of their presentation in accordance with the applicable financial reporting framework is management's responsibility.

.A19 Illustrations of engagement letters for a review of financial statements are presented in exhibit A, "Illustrative Engagement Letters."

Communication With Management and Those Charged With Governance (Ref: par. .13)

.A20 In a review engagement, the accountant's communications with management and those charged with governance take the form of

a. inquiries the accountant makes in the course of performing the procedures for the review and

b. other communications, in the context of having effective two-way communication to understand matters arising and to develop a constructive working relationship for the engagement.

.A21 The appropriate timing for communications will vary with the circumstances of the engagement. Relevant factors include the significance and nature of the matter and any action expected to be taken by management or those changed with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the review as soon as practicable if management or those charged with governance are able to assist the accountant to overcome the difficulty.

.A22 Law or regulation may restrict the accountant's communication of certain matters with those charged with governance. For example, law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the accountant's obligations of confidentiality and obligations to communicate may be complex. In such cases, the accountant may consider obtaining legal advice.

Communicating Matters Concerning the Review

.A23 Matters to be communicated to management or those charged with governance, as appropriate, in accordance with this section may include the following:

- The accountant's responsibilities in the review engagement, as included in the engagement letter or other suitable form of written agreement.
- Significant findings from the review, for example
  - — the accountant's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures.
  - — significant findings from the performance of procedures, including situations when the accountant considered performance of additional procedures necessary in accordance with this section. The accountant may need to confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.
  - — Matters arising that may lead to modification of the accountant's review report.
  - — Significant difficulties, if any, encountered during the review, for example, unavailability of expected information, unexpected inability to obtain evidence that the accountant considers necessary for the review, or restrictions imposed on the accountant by management. In some circumstances, such difficulties may lead to the accountant's withdrawal from the engagement.

.A24 In some entities, different persons are responsible for the management and governance of an entity. In these circumstances, management may have the responsibility to communicate matters of governance interest to those charged with governance. Communication by management with those charged with governance of matters that the accountant is required to communicate does not relieve the accountant of the responsibility to also communicate with those charged with governance. However, communication of these matters by management may affect the form or timing of the accountant's communication with those charged with governance.

Communication With Third Parties

.A25 The accountant may be required by law or regulation to, for example

- notify a regulatory or enforcement body of certain matters communicated with those charged with governance.

- submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies or, in some cases, make such reports publicly available.

.A26 Unless required by law or regulation to provide a third party with a copy of the accountant's written communications with those charged with governance, the accountant may need the prior consent of management or those charged with governance before doing so.

Understanding of the Industry (Ref: par. .14)

.A27 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 Entity (Ref: par. .15)

.A28 The accountant may obtain knowledge of the entity through inquiry of the entity's personnel, the review of documents prepared by the entity, or experience with the entity or the entity's industry. Such knowledge includes the following:

- An understanding of the entity's business
- An understanding of the accounting principles and practices used by the entity in measuring, recognizing, recording, and disclosing all significant accounts and disclosures in the financial statements

.A29 The accountant's understanding of the entity's business encompasses a general understanding of the entity's organization; its operating characteristics; and the nature of its assets, liabilities, revenues, and expenses.

Designing and Performing Review Procedures (Ref: par. .17)

.A30 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, in addition to analytical procedures and inquiries, in certain circumstances and based on the accountant's professional judgment, the accountant may perform procedures ordinarily performed in an audit. In such instances, the engagement remains a review, and the accountant is not required to perform an audit of the financial statements.

.A31 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 a related party transaction is not disclosed may revise the accountant's awareness of risk relative to related party transactions.

Analytical Procedures (Ref: par. .19–.20)

.A32 Examples of analytical procedures that an accountant may consider performing when conducting a review of financial statements are contained in appendix A, "Analytical Procedures the Accountant May Consider Performing When Conducting a Review of Financial Statements."

.A33 Analytical procedures include the consideration of comparisons of the entity's financial information with, for example:

- Comparable information for prior periods
- Anticipated results of the entity, such as budgets or forecasts, or expectations of the accountant, such as an estimation of depreciation
- Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable and gross margin percentages with industry averages or other entities of comparable size in the same industry

.A34 Analytical procedures also include consideration of relationships, for example:

- Among elements of financial information, such as gross margin percentages, that would be expected to conform to a predictable pattern based on recent history of the entity and industry
- Between financial information and relevant nonfinancial information, such as payroll costs to number of employees

.A35 When considering plausible relationships, the accountant may wish to consider information developed and used by the entity (for example, analyses prepared for management or those charged with governance).

.A36 Expectations developed by the accountant in performing analytical procedures in connection with a review of financial statements may be less precise than those developed in an audit. Also, in a review, the accountant is not required to corroborate management's responses with other evidence.

.A37 To compare disaggregated revenue data, the accountant may compare, for example, revenue reported by month and product line or operating segment during the current period with that of comparable prior periods.

.A38 Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses. Analytical procedures may be performed at the financial statement level or at the detailed account level. The nature, timing, and extent of analytical procedures are a matter of professional judgment.

Investigating Results of Analytical Procedures (Ref: par. .21b)

.A39 Although the accountant is not required to corroborate management's responses with other evidence, the need to perform other review procedures may arise when, for example, management is unable to provide an explanation, or the explanation is not considered adequate.

Inquiries of Members of Management Who Have Responsibility for Financial and Accounting Matters (Ref: par. .22)

.A40 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.

.A41 Examples of unusual or complex situations about which the accountant may inquire of management are contained in appendix B, "Unusual or Complex Situations to Be Considered by the Accountant When Performing Inquiry Procedures in a Review of Financial Statements."

.A42 Management may obtain knowledge of fraud or suspected fraud affecting the entity involving management or others when the fraud could have a material effect on the financial statements through, among other things, communications received from employees, former employees, or others.

.A43 The accountant may obtain and read minutes from meetings of stockholders, the board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements as an effective and efficient procedure to meet the requirement in paragraph .22*o* to inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about actions taken at such meetings.

Reconciling the Financial Statements to the Underlying Accounting Records (Ref: par. .26)

.A44 To obtain evidence that the financial statements agree or reconcile with the accounting records, the accountant may compare the financial statements to

- the accounting records, such as the general ledger;
- a consolidating schedule derived from the accounting records; or
- other supporting data in the entity's records.

Evaluating Evidence Obtained From the Procedures Performed (Ref: par. .28, .31, and .39f)

.A45 Considerations that may affect the evaluation of whether uncorrected misstatements, individually or in the aggregate, are material include the following:

- The nature, cause (if known), and amount of the misstatements
- Whether the misstatements originated in the preceding year
- The potential effect of the misstatements on future periods
- The appropriateness of offsetting a misstatement of an estimated amount with a misstatement of an item capable of precise measurement
- Recognition that an accumulation of immaterial misstatements in the balance sheet could contribute to material misstatements in future periods

.A46 The accountant's reporting responsibilities when the accountant concludes that the financial statements are materially misstated are addressed in paragraphs .56–.60 with respect to known departures from the applicable financial reporting framework.

.A47 In some circumstances, the accountant may not have obtained the evidence that the accountant had expected to obtain through the design of primarily inquiry and analytical procedures and procedures addressing specific circumstances. In these circumstances, the accountant considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the financial statements. The accountant may

- extend the work performed or
- perform other procedures judged by the practitioner to be necessary in the circumstances.

When neither of these is practicable in the circumstances, the accountant will not be able to obtain sufficient appropriate evidence to be able to form a conclusion and is required by this section to determine the effect on the accountant's ability to complete the engagement. This situation may arise even though the accountant has not become aware of a matter(s) that causes the accountant to believe the financial statements may be materially misstated.

Written Representations

Written Representations as Review Evidence (Ref: par. .32)

.A48 Written representations are an important source of review evidence. If management modifies or does not provide the requested written representations, it may alert the accountant to the possibility that one or more significant issues may exist. Further, a request for written, rather than oral, representations, in many cases, may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.

Management From Whom Written Representations Are Requested (Ref: par. .33)

.A49 Written representations are requested from those with overall responsibility for financial and operating matters whom the accountant believes are responsible for, and knowledgeable about, directly or through others in the organization, the matters covered by the representations, including the preparation and fair presentation of the financial statements. Those individuals may vary depending on the governance structure of the entity; however, management (rather than those charged with governance) is often the responsible party. Written representations may, therefore, be requested from the entity's CEO and CFO or other equivalent persons in entities that do not use such titles. However, in some circumstances, other parties, such as those charged with governance, also are responsible for the preparation and fair presentation of the financial statements.

.A50 Due to its responsibility for the preparation and fair presentation of the financial statements and its responsibility for the conduct of the entity's business, management would be expected to have sufficient knowledge of the process followed by the entity in preparing the financial statements on which to base the written representations.

.A51 In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the accountant to accept such wording if, in the accountant's judgment, the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

Specific Written Representations (Ref: par. .34–.35)

.A52 Review evidence obtained during the review that management has acknowledged the responsibilities referred to in paragraph .34*a*–*b* is not sufficient without obtaining representation from management that it believes that it has fulfilled those responsibilities. This is because the accountant is not able to judge solely on other review evidence whether management has prepared and fairly presented the financial statements and provided information to the accountant on the basis of the agreed acknowledgment and understanding of its responsibilities.

.A53 The written representations relating to fraud required by paragraph .34*f–g* are important for the accountant to obtain, regardless of the size of the entity, because of the nature of fraud and the difficulties encountered by accountants in detecting material misstatements in the financial statements resulting from fraud.

.A54 Because the preparation of financial statements requires management to adjust the financial statements to correct material misstatements, the accountant is required to request that management provide a written representation about uncorrected misstatements. In some circumstances, management may not believe that certain uncorrected misstatements are misstatements. For that reason, management may want to add to their written representation words such as "We do not agree that items . . . and . . . constitute misstatements because [*description of reasons*]."

.A55 Circumstances in which it may be appropriate to obtain written representations about related parties from those charged with governance in addition to management include the following:

- When they have approved specific related party transactions that
  - — materially affect the financial statements or
  - — involve management
- When they have made specific oral representations to the accountant on details of certain related party transactions
- When they have financial or other interests in the related parties or the related party transactions

.A56 Because written representations are necessary review evidence, the accountant has not obtained limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework and the accountant's review report cannot be dated before the date of the written representations. Furthermore, because the accountant is concerned with events occurring up to the date of the accountant's review report that may require adjustment to, or disclosure in, the financial statements, the written representations are dated as of the date of the accountant's review report on the financial statements.

.A57 The written representations cover all periods referred to in the accountant's review report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The accountant and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

.A58 Situations may arise in which current management was not present during all periods referred to in the accountant's review report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole. Accordingly, the requirement for the accountant to request from them written representations that cover the whole of the relevant period(s) still applies.

.A59 The accountant may request additional representations regarding matters specific to the entity's business or industry. In addition, the accountant is not precluded from obtaining representations regarding services performed in addition to the review engagement.

Form of Written Representations (Ref: par. .36)

.A60 Occasionally, circumstances may prevent management from signing the representation letter and returning it to the accountant on the date of the accountant's review report. In those circumstances, the accountant may accept management's oral confirmation, on or before the date of the accountant's review report, that management has reviewed the final representation letter and will sign the representation letter without exception as of the date of the accountant's review report. Possession of the signed management representation letter prior to releasing the accountant's review report is necessary because paragraph .36 requires that the representations be in the form of a written letter from management. Furthermore, when there are delays in releasing the report, a fact may become known to the accountant that, had it been known to the accountant at the date of the accountant's review report, might affect the accountant's review report and result in the need for updated representations.

.A61 Exhibit B, "Illustrative Representation Letter," provides an illustrative example of a representation letter.

Reporting on the Financial Statements (Ref: par. .38)

.A62 A written report encompasses reports issued in hard copy format and those using an electronic medium.

.A63 Financial statements that the accountant has reviewed may become unattached from the accountant's review report. To minimize the possibility that a user of the reviewed financial statements may infer, through the accountant's association with the reviewed financial statements, an unintended level of reliance on the reviewed financial statements, the accountant may consider including a reference on each page of the reviewed financial statements to the accountant's review report. An example of a reference to the accountant's review report included on each page of the reviewed financial statements is "See independent accountant's review report."

.A64 When the accountant is unable to perform the inquiry, analytical procedures, and other review procedures the accountant considers necessary to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework, or management 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.

Accountant's Review Report (Ref: par. .39)

Title

.A65 An appropriate title would be "Independent Accountant's Review Report."

Addressee

.A66 The accountant's review report is normally addressed to those for whom the report is prepared. The report may be addressed to the entity whose financial statements are being reviewed or to those charged with governance. A report on financial statements of an unincorporated entity may be addressed as circumstances dictate (for example, to the partners, general partner, or proprietor). Occasionally, an accountant may be retained to review the financial statements of an entity that is not a client; in such a case, the report may be addressed to the entity and not to those charged with governance of the entity whose financial statements are being reviewed.

Introductory Paragraph

.A67 The introductory paragraph states, for example, that the accountant has "reviewed the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements." If the financial statements include a separate statement of changes in stockholders' equity accounts or a separate statement of comprehensive income, paragraph .39*c*(iii) requires such statements to be identified in the introductory paragraph of the report as a statement to which the financial statements are comprised.

.A68 When the accountant is aware that the reviewed financial statements will be included in a document that contains other information, such as an annual report, the accountant may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial statements are presented. This helps users identify the financial statements to which the accountant's review report relates.

.A69 The identification of the title for each statement that the financial statements comprise may be achieved by referencing the table of contents.

Management's Responsibility

.A70 Management, and when appropriate, those charged with governance, accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the accountant's review report includes reference to both responsibilities because it helps explain to users the premise on which a review is conducted.

Accountant's Responsibility

.A71 The accountant's review report states that the accountant's responsibility is to conduct the review engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA in order to contrast it to management's responsibility for the financial statements.

.A72 The reference to the standards used conveys to users of the accountant's review report that the review engagement has been conducted in accordance with established standards.

.A73 The accountant is not permitted to represent compliance with SSARSs in the accountant's review report unless the accountant has complied with the relevant requirements within the body of SSARSs.

Accountant's Address

.A74 The city and state where the accountant practices may be indicated on letterhead that contains the issuing office's city and state.

Date of the Accountant's Review Report

.A75 The date of the accountant's review report informs users of the accountant's review report that the accountant has considered the effect of events and transactions of which the accountant became aware and that occurred up to that date. The accountant's responsibility for events and transactions after the date of the accountant's review report is addressed in paragraphs .71–.77.

.A76 Because the accountant's conclusion is provided on the financial statements, and the financial statements are the responsibility of management, the accountant is not in a position to conclude that the accountant has obtained limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework until evidence is obtained that all the statements that the financial statements comprise, including the related notes, have been prepared, and management has accepted responsibility for them.

.A77 Exhibit C, "Illustrations of Accountant's Review Reports on Financial Statements," contains illustrations of accountant's review reports on financial statements incorporating the elements required by paragraph .39.

Accountant's Review Report on Financial Statements Prepared in Accordance With a Special Purpose Framework (Ref: par. .09, .40, .42, and .44)

.A78 The description of the special purpose framework may be included in the financial statement titles, in the notes to the financial statements, or otherwise on the face of the financial statements. Although terms such as *balance sheet*, *statement of financial position*, *statement of income*, *statement of operations*, and *statement of cash flows* or similar unmodified titles, are generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP, such titles, with appropriate modification, may be used in connection with financial statements prepared in accordance with a special purpose framework. Suitable financial statement titles for financial statements prepared in accordance with a special purpose framework include, but are not limited to

- a modified cash-basis financial statement that might be titled
  - "Income Statement—Modified Cash-Basis," or
  - "Statement of Cash Receipts and Disbursements."
- financial statements prepared in accordance with the tax-basis of accounting that might be titled
  - "Balance Sheet—Tax-Basis,"
  - "Statement of Assets, Liabilities, and Equity—Tax-Basis,"
  - "Statement of Operations—Tax-Basis," or
  - "Statement of Revenue and Expenses—Tax-Basis."
- a financial statement prepared in accordance with a regulatory-basis of accounting that might be titled "Statement of Income—Regulatory-Basis."

.A79 The description of how the special purpose framework differs from GAAP ordinarily includes only the material differences between GAAP and the special purpose framework. For example, if several items are accounted for differently in accordance with the special purpose framework than they would be in accordance with GAAP, but only the differences in how depreciation is calculated are material, a brief description of the depreciation differences is all that would be necessary, and the remaining differences need not be described. The differences need not be quantified.

.A80 Financial statements prepared when applying a special purpose framework are not considered appropriate in form unless the financial statements include 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.

.A81 When the financial statements are prepared in accordance with a regulatory- or contractual-basis of accounting or an other-basis of accounting that requires an alert that restricts the use of the accountant's review report pursuant to paragraph .61*a–b*, the accountant is required by paragraph .42 to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid misunderstandings when the financial statements are used for purposes other than those for which they were intended. The note to the financial statements may also describe any significant interpretations of the contract on which the financial statements are based.

.A82 When use of the accountant's review report is restricted, the intended users are the specified parties. The restriction on use of the accountant's review report is necessary due to the nature 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. For example, special purpose financial statements prepared in accordance with a contractual-basis of accounting are developed for and directed only to the parties to the contract or agreement. Paragraphs .63–.64 address the addition of other parties as specified parties.

Comparative Financial Statements (Ref: par. .45)

.A83 The level of information included for the prior periods in comparative financial statements is comparable with that of financial statements of the current period.

.A84 If one firm of accountants merges with another firm, and the new firm becomes the accountant of a client of one of the two former firms, the new firm may accept responsibility and issue a review report on the financial statements for the prior period(s) as well as for those of the current period. The new firm may indicate in the accountant's review report or as part of the signature that a merger took place and may name the firm with whom it was merged.

Updating the Report (Ref: par. .46)

.A85 An updated report is issued in conjunction with the continuing accountant's report on the current period financial statements.

Changed Reference to a Departure From the Applicable Financial Reporting Framework (Ref: par. .49)

.A86 A changed reference includes the removal of a prior reference or the inclusion of a new reference.

Communicating to Management and Others Regarding Fraud or Noncompliance With Laws and Regulations (Ref: par. .51)

.A87 The communication of matters involving identified or suspected noncompliance may describe the act of identified or suspected noncompliance, the circumstances of its occurrence, and the effect on the financial statements.

The accountant may reach agreement in advance with management and those charged with governance, if applicable, on the nature and amount of matters that would be considered not material and, thus, need not be communicated.

.A88 The disclosure of any evidence or information that comes to the accountant's attention during the performance of review procedures that fraud or noncompliance with laws or regulations may have occurred to parties other than the entity'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.

.A89 A duty to disclose to parties outside of the entity may exist in the following circumstances:

- To comply with certain legal and regulatory requirements
- To a successor accountant when management has given permission for communication between the predecessor accountant and the successor accountant
- In response to a subpoena

In such circumstances, the accountant may consider it appropriate to consult with legal counsel.

.A90 The accountant may consider whether withdrawal from the engagement is necessary when

- management or those charged with governance do not take the remedial action that the accountant considers necessary in the circumstances or
- matters regarding fraud or noncompliance with laws or regulations involve an owner of the business.

When deciding whether withdrawal from the engagement is necessary, the accountant may consider seeking legal advice.

Emphasis-of-Matter and Other-Matter Paragraphs in the Accountant's Review Report (Ref: par. .52 and .54)

.A91 The accountant is required to include an emphasis-of-matter or other-matter paragraph in the accountant's review report relating to the following matters:

- In accordance with paragraphs .43–.44 with respect to financial statements prepared in accordance with a special purpose framework
- In accordance with paragraph .49 with respect to a changed reference to a departure from the applicable financial reporting framework when reporting on comparative financial statements
- In accordance with paragraph .50 with respect to reporting on comparative financial statements when the prior period is audited
- In accordance with paragraph .57 with respect to reporting a known departure from the applicable financial reporting framework that is material to the financial statements
- In accordance with paragraph .75*c* with respect to reporting when management revises financial statements for a subsequently discovered fact that became known to the accountant after the report

release date and the accountant's review report on the revised financial statements differs from the accountant's review report on the original financial statements

- In accordance with paragraph .80 with respect to supplementary information that accompanies reviewed financial statements and the accountant's review report thereon
- In accordance with paragraph .83 with respect to required supplementary information

Emphasis-of-Matter Paragraphs in the Accountant's Review Report (Ref: par. .52–.54)

.A92 In addition to the required emphasis-of-matter paragraphs listed in paragraph .A91, the following are examples of circumstances when the accountant may consider it necessary to include an emphasis-of-matter paragraph:

- An uncertainty regarding the entity's ability to continue as a going concern for a reasonable period of time
- An uncertainty relating to the future outcome of unusually important litigation or regulatory action
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position
- Significant transactions with related parties
- Unusually important subsequent events

.A93 Paragraph .52 requires that an emphasis-of-matter paragraph refer only to matters appropriately presented or disclosed in the financial statements. To include information in an emphasis-of-matter paragraph about a matter beyond what is presented or disclosed in the financial statements may raise questions about the appropriateness of such presentation or disclosure.

.A94 Another heading may be considered appropriate if it adequately describes the nature of the matter being disclosed or communicated.

.A95 The inclusion of an emphasis-of-matter paragraph in the accountant's review report does not affect the accountant's conclusion. An emphasis-of-matter paragraph is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make.

Other-Matter Paragraphs in the Accountant's Review Report (Ref: par. .54)

.A96 If not properly presented or disclosed in the financial statements, a matter cannot be included in an emphasis-of-matter paragraph. However, if the matter is relevant to users' understanding of the review, the accountant's responsibilities, or the accountant's review report, the matter can be disclosed in an other-matter paragraph.

.A97 An entity may prepare one set of financial statements in accordance with a general purpose framework (for example, accounting principles generally accepted in the United States of America) and another set of financial statements in accordance with another general purpose framework (for example, International Financial Reporting Standards promulgated by the International Accounting Standards Board) and may engage the accountant to review both sets of financial statements. If the accountant has determined that the frameworks are acceptable in the respective circumstances, the accountant may include an other-matter paragraph in the accountant's review report referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the accountant has issued a review report on those financial statements.

.A98 The content of an other-matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An other-matter paragraph does not include information that the accountant is prohibited from providing by law, regulation, or other professional standards (for example, ethical standards relating to the confidentiality of information). An other-matter paragraph does not include information that is required to be provided by management.

Communication With Management (Ref: par. .55)

.A99 The accountant's communication with management, as described in paragraph .55, enables management to be made aware of the nature of any specific matters that the accountant intends to highlight in the accountant's review report and provides them with an opportunity to obtain further clarification from the accountant, when necessary. When the inclusion of an other-matter paragraph on a particular matter in the accountant's review report recurs on each successive engagement, the accountant may determine that it is unnecessary to repeat the communication on each engagement.

.A100 In addition to management, the accountant may also consider it appropriate to communicate with those charged with governance regarding the expectation of including an other-matter paragraph in the accountant's review report and the proposed wording of this paragraph.

Known Departures From the Applicable Financial Reporting Framework (Ref: par. .57 and .59–.60)

.A101 Examples of headings that an accountant may use to disclose departures from an applicable financial reporting framework in the accountant's review report include the following:

- Known Departures From Accounting Principles Generally Accepted in the United States of America
- Known Departures From International Financial Reporting Standards as Promulgated by the International Accounting Standards Board
- Known Departures From the Cash-Basis of Accounting
- Known Departures From the Tax-Basis of Accounting

.A102 Prior to withdrawing from a review engagement in those circumstances when 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 may wish to consult with legal counsel.

.A103 Including a statement that the financial statements are not in accordance with the applicable financial reporting framework would be tantamount to expressing an adverse opinion on the financial statements. Such an opinion can be expressed only in the context of an audit engagement. Furthermore, such a statement in an accountant's review report may confuse users because it would contradict the statement required in paragraph .39*f* about whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework.

.A104 Depending on the accountant's assessment of the possible dollar magnitude of the effect 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 effect of the departures, the accountant may, in accordance with paragraphs .52–.55, include a separate paragraph in the accountant's review report stating the limitations of the financial statements. The following is an illustration of such a separate paragraph with respect to an accountant's review report on financial statements prepared in accordance with accounting principles generally accepted in the United States of America:

Limitations of the financial statements

Because the significance and pervasiveness of the matters described in the Known Departures From Accounting Principles Generally Accepted in the United States of America paragraphs makes it difficult to assess their impact on the financial statements, users of the accompanying 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 accordance with accounting principles generally accepted in the United States of America.

.A105 Inclusion of a separate paragraph, such as that illustrated in paragraph .A104 in the accountant's review report is not a substitute for disclosure of the specific departures or the effects of such departures if such effects have been determined by management or are known as a result of the accountant's procedures.

.A106 Exhibit C, "Illustrations of Accountant's Review Reports on Financial Statements," contains an illustrative example of an accountant's review report that discloses a departure from the applicable financial reporting framework.[1]

Alert That Restricts the Use of the Accountant's Review Report (Ref: par. .61)

.A107 The need for an alert that restricts the use of the accountant's review report arises from the potential for the accountant's review report to be misunderstood if taken out of the context in which the accountant's review report is intended to be used.

.A108 Accountant's review reports on financial statements prepared in accordance with a general purpose framework ordinarily do not include an alert that restricts their use. A general purpose framework is a financial reporting framework designed to meet the common financial information needs of a wide range of users. However, nothing in SSARSs precludes an accountant from including an alert in any accountant's review report. For example, financial statements prepared specifically for use in an acquisition may be prepared in accordance with a general purpose framework because the parties involved in the transaction have agreed that such general purpose financial statements are appropriate for their purposes. Nevertheless, when the terms of the engagement to review those financial statements require the accountant to supply the accountant's review report only to specified parties, the accountant may consider it necessary in the circumstances to include an other-matter paragraph in

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[1] Illustration 5, "An Accountant's Review Report on Comparative Financial Statements Disclosing a Departure From Accounting Principles Generally Accepted in the United States of America," of exhibit C, "Illustrations of Accountant's Review Reports on Financial Statements."

the accountant's review report that restricts the use of the accountant's review report.

Distribution of the Accountant's Review Report (Ref: par. .61)

.A109 An accountant is not responsible for controlling, and cannot control, distribution of the accountant's review report after its release. The alert that restricts the use of the accountant's review report is designed to avoid misunderstandings related to the use of the accountant's review report, particularly if the accountant's review report is taken out of the context in which the accountant's review report is intended to be used. An accountant may consider informing the entity or other specified parties that the accountant's review report is not intended for distribution to parties other than those specified in the accountant's review report. The accountant may, in connection with establishing the terms of the engagement, reach an understanding with the entity that the intended use of the accountant's review report will be restricted and may obtain the entity's agreement that the entity and specified parties will not distribute such accountant's review report to parties other than those identified therein.

Illustrative Alert Language (Ref: par. .62)

.A110 The alert that restricts the use of the accountant's review report may list the specified parties or refer to the specified parties listed elsewhere in the accountant's review report. The following illustrates language that includes the elements required by paragraph .62:

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

Adding Other Specified Parties (Ref: par. .63)

.A111 When the accountant is requested to add other parties as specified parties, 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 and the intended use of the accountant's review report.

The Accountant's Consideration of an Entity's Ability to Continue as a Going Concern

Consideration of Conditions or Events That Indicate That There Could Be an Uncertainty About the Entity's Ability to Continue as a Going Concern (Ref: par. .65)

.A112 In performing review procedures, the accountant may identify information about certain conditions or events that, when considered in the aggregate, indicate there could be an uncertainty 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

Consideration of Financial Statement Effects (Ref: par. .66)

.A113 In considering the adequacy of disclosure, some of the information that might be disclosed includes the following:

- Principal conditions and events giving rise to the assessment of an 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

Consideration of the Effects on the Accountant's Review Report (Ref: par. .68)

.A114 If, after considering the evidence or information from paragraph .65 and management's consideration of the possible effects of the going concern uncertainty on the financial statements from paragraph .66, the accountant concludes that management has adequately disclosed the issue, the accountant may include an emphasis-of-matter paragraph in the accountant's review report pursuant to paragraphs .52–.53 and .54. The accountant is not required to include an emphasis-of-matter paragraph with respect to a going concern uncertainty.

.A115 The following is an illustration of an emphasis-of-matter paragraph the accountant may include in the accountant's review report when the accountant concludes that management has adequately disclosed an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time and determines to include an emphasis-of-matter paragraph with respect to the going concern uncertainty:

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises an uncertainty about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

.A116 Examples of inappropriate wording in an emphasis-of-matter paragraph when the accountant concludes that management has adequately disclosed an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time and determines to include an emphasis-of-matter paragraph with respect to the going concern uncertainty include the following:

- If the company continues to suffer recurring losses from operations and continues to have a net capital deficiency, there may be an uncertainty about its ability to continue as a going concern.
- The company has been unable to renegotiate its expiring credit agreements. Unless the company is able to obtain financial support, there is an uncertainty about its ability to continue as a going concern.

Subsequent Events and Subsequently Discovered Facts

Subsequent Events (Ref: par. .69)

.A117 Evidence or information that subsequent events that require adjustment of, or disclosure in, the financial statements may come to the accountant's attention in the following ways:

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

Subsequently Discovered Facts That Became Known to the Accountant After the Report Release Date (Ref: par. .74–.77)

.A118 New information may come to the accountant's attention that, had such information been known to the accountant at the date of the accountant's review report, may have caused the accountant to revise the accountant's review report. When such information becomes known to the accountant after the report release date, the requirements in paragraphs .74–.77 apply, even if the accountant has withdrawn or been discharged.

.A119 Because of the variety of conditions that might be encountered, the specific procedures or actions to be taken in a particular case may vary somewhat in light of the circumstances. For example, when determining whether the financial statements need revision, as required by paragraph .74*b*, the accountant may consider, in addition to the requirements of the applicable financial reporting framework, whether the accountant believes persons are currently using, or are likely to use, the financial statements and who would attach importance to the subsequently discovered facts. Consideration may be given, among other things, to the issuance of reviewed or audited financial statements for a subsequent period, the time elapsed since the financial statements were issued and the date of the accountant's review report released, and any legal implications.

.A120 The steps taken by management to ensure that anyone in receipt of the reviewed financial statements is informed of the situation, including that the reviewed financial statements are not to be used, depend on the circumstances. Management's steps may include the following:

- Notify anyone who is known to be using, or who is likely to use, the financial statements and the accountant's review report that they are not to be used and that revised financial statements, together with a new accountant's review report, will be issued. This may be necessary when the issuance of revised financial statements and a new accountant's review report is not imminent.
- Issue, as soon as practicable, revised financial statements with appropriate disclosure of the matter.
- Issue the subsequent period's financial statements with appropriate disclosure of the matter. This may be appropriate when issuance of the subsequent period's reviewed or audited financial statements is imminent.

.A121 If management made the reviewed financial statements available to third parties despite the accountant's notification not to do so, or if the accountant believes that management or those charged with governance have failed to take the necessary steps to prevent use of the accountant's review report on the previously issued reviewed financial statements despite the accountant's prior notification that the accountant will take action to seek to prevent such use, the accountant's course of action depends upon the accountant's legal and ethical rights and obligations. Consequently, the accountant may consider it appropriate to seek legal advice.

.A122 The actions that the accountant may take to seek to prevent use of the accountant's review report may depend upon the degree of certainty of the accountant's knowledge that persons or entities exist who are currently using, or who will use, the reviewed financial statements, and who would attach importance to the information, and the accountant's ability as a practical matter to communicate with them. In addition to seeking legal advice, the accountant may consider taking the following steps to the extent applicable:

- Notify management and those charged with governance that the accountant's review report is not to be used.
- Notify regulatory agencies having jurisdiction over the entity that the accountant's review report is not to be used, including a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.
- Notify anyone known to the accountant to be using the financial statements that the accountant's review report is not to be used. In some instances, it will not be practicable for the accountant to give appropriate individual notification to stockholders or investors at large whose identities are unknown to the accountant; notification to a regulatory agency having jurisdiction over the entity will usually be the only practical means for the accountant to provide appropriate disclosure, together with a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.

.A123 Depending on the circumstances, if the accountant is able to determine that the financial statements need revision, the accountant's notification to anyone in receipt of the reviewed financial statements may, if permitted by law, regulation, and relevant ethical requirements

- include a description of the nature of the matter and of its effect on the financial statements, avoiding comments concerning the conduct or motives of any person.

- describe the effect that the matter would have had on the accountant's review report if it had been known to the accountant at the date of the report and had not been reflected in the financial statements.

.A124 If the accountant was not able to determine whether the financial statements need revision, the notification to anyone in receipt of the reviewed financial statements may indicate that information became known to the accountant and that, if the information is true, the accountant believes that the accountant's review report is not to be used. The specific matter may not be permitted by law, regulation, and ethical requirement to be detailed in the notification.

Reference to the Work of Other Accountants in an Accountant's Review Report (Ref: par. .78)

.A125 The accountant of the reporting entity may make reference to any or all other accountants who audited or reviewed significant components. For example, if a significant component is audited or reviewed by an other accountant and a second significant component is audited or reviewed by a different other accountant, the accountant of the reporting entity may decide to make reference to one of the other accountants, both of the other accountants, or neither. The decision is solely at the discretion and judgment of the accountant of the reporting entity.

.A126 The disclosure of the magnitude of the portion of the financial statements audited or reviewed by other accountants may be achieved by stating the dollar amounts or percentages of total assets, total revenues, other appropriate criteria, or a combination of these, whichever most clearly describes the portion of the financial statements audited or reviewed by other accountants. When two or more other accountants participate in the audit or review, the dollar amounts or the percentages covered by the other accountants may be stated in the aggregate.

.A127 Exhibit C contains an example of appropriate reporting in the accountant's review report when reference is made to the audit or review of significant components, such as consolidated and unconsolidated subsidiaries and investees, by other accountants.[2]

Supplementary Information That Accompanies Reviewed Financial Statements (Ref: par. .80–.82)

.A128 Although not required to perform a compilation or review on supplementary information, nothing precludes the accountant from performing a compilation or review on such information if engaged to do so.

.A129 The following is an example of how an accountant may word an other-matter paragraph addressing supplementary information when the accountant has reviewed both the financial statements and the supplementary information:

> ***Other Matter***
>
> The [*identify the supplementary information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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[2] Illustration 6, "An Accountant's Review Report on Comparative Consolidated Financial Statements in Which the Accountant Makes Reference to the Work of Other Accountants Who Were Engaged to Review the Financial Statements of a Significant Component," of exhibit C.

> The information is the representation of management. I (We) have reviewed the information and, based on my (our) review, I am (we are) not aware of any material modifications that should be made to the information in order for it to be in accordance with [*the applicable financial reporting framework*]. I (We) have not audited the information and, accordingly, do not express an opinion on such information.

.A130 The following is an example of how an accountant may word an other-matter paragraph addressing supplementary information when the accountant has reviewed the financial statements but has not reviewed the supplementary information:

> ***Other Matter***
>
> The [*identify the supplementary information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. I (We) have not audited or reviewed such information and, accordingly, I (we) do not express an opinion, a conclusion, nor provide any assurance on it.

.A131 Supplementary information on which the accountant has performed a compilation or review may become unattached from the accountant's review report. To minimize the possibility that a user of the information may infer, through the accountant's association with the information, an unintended level of reliance on the information, the accountant may consider including a reference to the accountant's review report on each page of the information. An example of a reference to the accountant's review report included on each page of the supplementary information is "See independent accountant's review report."

Required Supplementary Information (Ref: par. .83–.84)

.A132 Examples of required supplementary information that may accompany reviewed financial statements include the following:

- With respect to common interest realty associations, estimates of current or future costs of major repairs and replacements of common property that will be required in the future as required by FASB *Accounting Standards Codification* 972-235-50-3
- Management's discussion and analysis and budgetary comparison statements as required by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

.A133 *Prescribed guidelines* are the authoritative guidelines established by the designated accounting standard-setter for the methods of measurement and presentation of the required supplementary information.

.A134 Because the required supplementary information accompanies the basic financial statements, the accountant's review report on the financial statements includes a discussion of the responsibility taken by the accountant on that information. However, if the required supplementary information is omitted by the entity, the accountant does not have a responsibility to present that information.

Change in Engagement From Audit to Review (Ref: par. .86)

.A135 A request to change the engagement may result from a change in circumstances affecting the entity's requirement for an audit engagement; a misunderstanding regarding the nature of an audit or review engagement; or a restriction on the scope of the audit engagement, whether imposed by management or caused by circumstances.

.A136 A change in circumstances that affects the entity's requirement for an audit engagement or a misunderstanding concerning the nature of an audit or review engagement would ordinarily be considered a reasonable basis for requesting a change in the engagement.

.A137 The implications of a restriction on the scope of the audit engagement include the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory.

Review Documentation (Ref: par. .91)

.A138 Review documentation may be recorded on paper or on electronic or other media.

.A139 The accountant need not include in review documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

.A140 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. On their own, oral explanations by the accountant do not represent adequate support for the work the accountant performed or conclusions reached, but they may be used to explain or clarify information contained in the review documentation.

.A141 In the case of a review in which the engagement partner performs all the review work, the engagement partner is still required to comply with the overriding requirement in paragraph .91 to prepare review documentation that can be understood by an experienced accountant because the review documentation may be subject to review by external parties.

.A142 Findings or issues that, in the accountant's professional judgment, are significant may include the results of review procedures that indicate that the financial statements could be materially misstated, including actions taken to address such findings and the basis for the final conclusions.

.A143

Appendix A—Analytical Procedures the Accountant May Consider Performing When Conducting a Review of Financial Statements (Ref: par. .A32)

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. Examples of analytical procedures that an accountant may consider performing in a review of financial statements include the following:

- Comparing current financial statements with the financial statements of the prior period.
- Comparing current financial statements 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 statements with corresponding information in [*a*] budgets, using expected rates, and [*b*] financial statements for prior periods). Caution is necessary when comparing and evaluating current financial statements 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.
- Comparing current financial statements 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 statements and comparing the results with corresponding information for prior periods). Examples of key ratios and indicators are the current ratio, receivable 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.
- Comparing ratios and indicators for the current period with those of entities in the same industry.
- Comparing relationships among elements in the current financial statements with corresponding relationships in the financial statements 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).
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
  - — By period (for example, financial statement items disaggregated into quarterly, monthly, or weekly amounts)
  - — By product line or operating segment
  - — By location (for example, subsidiary, division, or branch)

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.

.A144

Appendix B—Unusual or Complex Situations to Be Considered by the Accountant When Performing Inquiry Procedures in a Review of Financial Statements (Ref: par. .A41)

The following are examples of situations about which the accountant may inquire of management:

- Business combinations
- New or complex revenue recognition methods
- Impairment of assets
- Disposal of a segment of a business
- Use of derivative instruments and hedging activities
- Sales and transfers that may call into question the classification of investments in securities, including management's intent and ability with respect to the remaining securities classified as held to maturity
- Adoption of new stock compensation plans or changes to existing plans
- Restructuring charges taken in the current and prior periods
- Significant, unusual, or infrequently occurring transactions
- Changes in litigation or contingencies
- Changes in major contracts with customers or suppliers
- Application of new accounting principles
- Changes in accounting principles or the methods of applying them
- Trends and developments affecting accounting estimates, such as allowances for bad debts and excess or obsolete inventories, provisions for warranties and employee benefits, and realization of unearned income and deferred charges
- Compliance with debt covenants
- Changes in related parties or significant new related party transactions
- Material off-balance sheet transactions, special purpose entities, and other equity investments
- Unique terms for debt or capital stock that could affect classification

.A145

Exhibit A—Illustrative Engagement Letters (Ref: par. .A19)

Illustration 1—An Engagement Letter for a Review Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 2—An Engagement Letter for a Review Engagement With Respect to Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

The illustrative engagement letters in this exhibit are intended as illustrations that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances, and the illustrations are drafted to refer to a review engagement for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

Illustration 1—An Engagement Letter for a Review Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial statements, including related notes, subject to the review engagement.
- The financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America.

To the appropriate representative of management of ABC Company:[1]

You[2] have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements and perform a review engagement with respect to those financial statements.[3] We are pleased to confirm our acceptance and understanding of this engagement by means of this letter.

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[1] The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the review engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph .A15.

[2] Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

[3] The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping services.

Our Responsibilities

The objective of our engagement is to

a. prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and

b. obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including ethical principles of integrity, objectivity, professional competence, and due care.

A review engagement includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review engagement is substantially less in scope than an audit engagement, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review engagement 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; or other procedures ordinarily performed in an audit engagement. Accordingly, we will not express an opinion regarding the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by error or fraud, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations. However, we will inform the appropriate level of management of any material errors and any evidence or information that comes to our attention during the performance of our review procedures that indicates 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 noncompliance with laws and regulations that may have occurred, unless they are clearly inconsequential.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America and to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements

b. The preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the

United States of America and the inclusion of all informative disclosures that are appropriate for accounting principles generally accepted in the United States of America

c. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements

d. The prevention and detection of fraud

e. To ensure that the entity complies with the laws and regulations applicable to its activities

f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

g. To provide us with

   i. access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters

   ii. additional information that we may request from you for the purpose of the review engagement

   iii. unrestricted access to persons within the entity of whom we determine it necessary to make inquiries

h. To provide us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review

You are also responsible for all management decisions and responsibilities, and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of services performed and accepting responsibility for such services.

Our Report

[*Insert appropriate reference to the expected form and content of the accountant's review report. Example follows.*]

We will issue a written report upon completion of our review of ABC Company's financial statements. Our report will be addressed to the board of directors of ABC Company. We cannot provide assurance that an unmodified accountant's review report will be issued. Circumstances may arise in which it is necessary for us to report known departures from accounting principles generally accepted in the United States of America, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. 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.

You agree to include our accountant's review report in any document containing financial statements that indicates that such financial statements have been reviewed by us and, prior to inclusion of the report, to ask our permission to do so.

Other Relevant Information

Our fees for these services . . .

[*The accountant may include language, such as the following, regarding limitation of or other arrangements regarding the liability of the accountant or the entity, 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):*

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a review of those same financial statements and our respective responsibilities.

Sincerely yours,

____

[*Signature of accountant or accountant's firm*]

Acknowledged and agreed on behalf of ABC Company by:

____

[*Signed*]

[*Name and Title*]

____

[*Date*]

[Revised, February 2015, to include additional required engagement letter elements.]

Illustration 2—An Engagement Letter for a Review Engagement With Respect to Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial statements, including related notes, subject to the review engagement.
- The financial statements will be prepared in accordance with the tax-basis of accounting.

To the appropriate representative of management of ABC Company:[1]

You[2] have requested that we prepare the financial statements of ABC Company, which comprise the statement of assets, liabilities, and equity—tax-basis as of December 31, 20XX, and the related statements of operations and retained earnings—tax-basis, and cash flows—tax-basis for the year then ended, and the related notes to the financial statements and to perform a review engagement with respect to those financial statements.[3] We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

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[1] The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the review engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph .A15.

[2] Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

[3] The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping services.

Our Responsibilities

The objective of our engagement is to

a. prepare financial statements in accordance with the tax-basis of accounting based on information provided by you and

b. obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the tax-basis of accounting.

We will conduct our review engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including ethical principles of integrity, objectivity, professional competence, and due care.

A review engagement includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review engagement is substantially less in scope than an audit engagement, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review engagement 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; or other procedures ordinarily performed in an audit engagement. Accordingly, we will not express an opinion regarding the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by error or fraud, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations. However, we will inform the appropriate level of management of any material errors and any evidence or information that comes to our attention during the performance of our review procedures that indicates 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 noncompliance with laws and regulations that may have occurred, unless they are clearly inconsequential.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to prepare financial statements in accordance with the tax-basis of accounting and to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the tax-basis of accounting. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

a. The selection of the tax-basis of accounting as the financial reporting framework to be applied in the preparation of the financial statements

b. The preparation and fair presentation of the financial statements in accordance with the tax-basis of accounting and the inclusion of all informative disclosures that are appropriate for the tax-basis of accounting. This includes

  i. a description of the tax-basis of accounting, including a summary of significant accounting policies, and how the tax-basis of accounting differs from accounting principles generally accepted in the United States of America, the effects of which need not be qualified

   ii. informative disclosures similar to those required by accounting principles generally accepted in the United States of America

c. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements

d. The prevention and detection of fraud

e. To ensure that the entity complies with the laws and regulations applicable to its activities

f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

g. To provide us with

   i. access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters

   ii. additional information that we may request from you for the purpose of the review engagement

   iii. unrestricted access to persons within the entity of whom we determine it necessary to make inquiries

h. To provide us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

[*Insert appropriate reference to the expected form and content of the accountant's review report. Example follows.*]

We will issue a written report upon completion of our review of ABC Company's financial statements. Our report will be addressed to the board of directors of ABC Company. We cannot provide assurance that an unmodified accountant's review report will be issued. Circumstances may arise in which it is necessary of us to report known departures from the tax-basis of accounting, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. 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.

You agree to include our accountant's review report in any document containing financial statements that indicates that such financial statements have been reviewed by us and, prior to inclusion of the report, to ask our permission to do so.

Other Relevant Information

Our fees for these services . . .

[*The accountant may include language, such as the following, regarding limitation of or other arrangements regarding the liability of the accountant or the entity, 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):*

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a review with respect to those same financial statements and our respective responsibilities.

Sincerely yours,

____

[*Signature of accountant or accountant's firm*]

Acknowledged and agreed on behalf of ABC Company by:

____

[*Signed*]

[*Name and Title*]

____

[*Date*]

[Revised, February 2015, to include additional required engagement letter elements.]

.A146

Exhibit B—Illustrative Representation Letter (Ref: par. .A61)

The following illustrative letter is intended as an illustration that may be used to comply with the requirements of section 90. The representation letter will vary according to individual requirements and circumstances.

It is assumed in this illustration that the applicable financial reporting framework is accounting principles generally accepted in the United States of America, that no conditions or events exist that might be indicative of the entity's inability to continue as a going concern, and that no exceptions exist to the requested written representations. If circumstances differ from these assumptions, the representations would need to be modified to reflect the actual circumstances.

(Entity Letterhead)

(To Accountant)

(Date)

This representation letter is provided in connection with your review of the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of obtaining limited assurance as a basis for reporting whether you are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America.

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 relying on the information would be changed or influenced by the omission or misstatement.

We represent that [*to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves*] [*as of* (*date of accountant's review report*)]:

Financial Statements

- We acknowledge our responsibility and have fulfilled our responsibilities for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- We acknowledge our responsibility and have fulfilled our responsibilities for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
- Guarantees, whether written or oral, under which the company is contingently liable have been properly accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
- Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB *Accounting Standards Codification* (ASC) 275, *Risks and Uncertainties*, have been properly accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America. [Significant estimates *are estimates at the balance sheet date that could change materially within 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.*]
- All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

[*Any other matters that the accountant may consider appropriate.*]

Information Provided

- We have responded fully and truthfully to all inquiries made to us by you during your review.
- We have provided you with
  - — access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
  - — minutes of meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared;
  - — additional information that you have requested from us for the purpose of the review; and
  - — unrestricted access to persons within the entity from whom you determined it necessary to obtain review evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have [*no knowledge of any*] [*disclosed to you all information that we are aware of regarding*] fraud or suspected fraud that affects the entity and involves

  - — management,
  - — employees who have significant roles in internal control, or
  - — others when the fraud could have a material effect on the financial statements.

- We have [*no knowledge of any*] [*disclosed to you all information that we are aware of regarding*] allegations of fraud, or suspected fraud, affecting the entity's financial statements as a whole communicated by employees, former employees, analysts, regulators, or others.
- We have no plans or intentions that may materially affect the carrying amounts or classification of assets and liabilities.
- We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws or regulations whose effects should be considered when preparing financial statements.
- We [*have disclosed to you all known actual or possible*] [*are not aware of any pending or threatened*] litigation and claims whose effects should be considered when preparing the financial statements [*and we have not consulted legal counsel concerning litigation or claims*]
- We have disclosed to you any other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- No material losses exist (such as from obsolete inventory or purchase or sale commitments) that have not been properly accrued or disclosed in the financial statements.
- 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.
- We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- We are in agreement with the adjusting journal entries that you have recommended, and they have been posted to the company's accounts (if applicable).

[*Any other matters that the accountant may consider necessary*.]

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[*Name of Chief Executive Officer and Title*]

____

[*Name of Chief Financial Officer and Title*]

Representation letters ordinarily are tailored to include additional appropriate representations from management relating to matters specific to the entity's business or industry.

.A147

Exhibit C—Illustrations of Accountant's Review Reports on Financial Statements (Ref: par. .A77, .A106, and .A127)

The illustrative accountant's review reports in this exhibit are intended as illustrations that may be used to comply with the requirements of section 90. The accountant's review report will vary according to individual requirements and circumstances.

Illustration 1—An Accountant's Review Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When a Review Has Been Performed for Both Periods

Circumstances include the following:

- Review of a complete set of comparative financial statements.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Independent Accountant's Review Report

[*Appropriate Addressee*]

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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's Responsibility for the Financial Statements

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

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

[*Accountant's city and state*]

[*Date of the accountant's review report*]

Illustration 2—An Accountant's Review Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Review of a complete set of financial statements (single year).
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Independent Accountant's Review Report

[*Appropriate Addressee*]

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

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

[*Accountant's city and state*]

[*Date of the accountant's review report*]

Illustration 3—An Accountant's Review Report on Single Year Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

Circumstances include the following:

- Review of a complete set of financial statements (single year).
- The financial statements are of a partnership and prepared in accordance with the basis of accounting the partnership uses for income tax purposes (that is, a special purpose framework).
- Management has a choice of financial reporting frameworks.

Independent Accountant's Review Report

[*Appropriate Addressee*]

I (We) have reviewed the accompanying financial statements of XYZ Partnership, which comprise the statement of assets, liabilities, and partners' capital—tax-basis as of December 31, 20XX, and the related statements of revenue and expenses—tax-basis, and partners' capital—tax-basis for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's (partners') financial data and making inquiries of partnership 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 statement as a whole. Accordingly, I (we) do not express such an opinion.

Management's Responsibility for the Financial Statements

Management (Partners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the partnership uses for income tax purposes; this includes determining that the basis of accounting the partnership uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management (Partners) is (are) also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with the basis of accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

Accountant's Conclusion

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 accordance with the basis of accounting the partnership uses for income tax purposes.

Basis of Accounting

I (We) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the partnership uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

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

[*Accountant's city and state*]

[*Date of the accountant's review report*]

Illustration 4—An Accountant's Review Report on Interim Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Review of a complete set of financial statements for the period ended September 30, 20XX, and for the three and nine months then ended.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.
- The accountant appropriately performs the engagement in accordance with SSARSs (that is, AU-C section 930, *Interim Financial Information* [AICPA, *Professional Standards*], is not applicable).

Independent Accountant's Review Report

[*Appropriate Addressee*]

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheet as of September 30, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the three and nine months then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting standards generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

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

[*Accountant's city and state*]

[*Date of the accountant's review report*]

Illustration 5—An Accountant's Review Report on Comparative Financial Statements Disclosing a Departure From Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Review of a complete set of comparative financial statements.
- The financial statements contain a departure from accounting principles generally accepted in the United States of America.

Independent Accountant's Review Report

[*Appropriate Addressee*]

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

Accountant's Conclusion

Based on my (our) reviews, except for the issue noted in the Known Departure From Accounting Principles Generally Accepted in the United States of America paragraph, 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 accordance with accounting principles generally accepted in the United States of America.

Known Departure From Accounting Principles Generally Accepted in the United States of America

As disclosed in Note X to these 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 these 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 accordance with accounting principles generally accepted in the United States of America, the company does not appear to have reasonable justification for making a change as required by FASB *Accounting Standards Codification* 250, *Accounting Changes and Error Corrections.*

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

[*Accountant's city and state*]

[*Date of the accountant's review report*]

Illustration 6—An Accountant's Review Report on Comparative Consolidated Financial Statements in Which the Accountant Makes Reference to the Work of Other Accountants Who Were Engaged to Review the Financial Statements of a Significant Component

Circumstances include the following:

- Review of a complete set of comparative consolidated financial statements.
- The financial statements of B Company, a wholly-owned subsidiary, whose financial statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X2 and 20X1, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended, were reviewed by other accountants, and the accountant has decided to make reference to the work of other accountants in the accountant's review report.

Independent Accountant's Review Report

[*Appropriate Addressee*]

I (We) have reviewed the accompanying consolidated financial statements of XYZ Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X2 and 20X1, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements

Management (Owners) is (are) responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA. We have not reviewed the financial statements of B Company, a wholly-owned subsidiary, whose financial statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X2 and 20X1, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. These statements were reviewed by other accountants, whose report has been furnished to me (us), and our conclusion, insofar as it relates to the amounts included for B Company, is based solely on the report of the other accountants.

SSARSs require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

Accountant's Conclusion

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

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

[*Accountant's city and state*]

[*Date of the accountant's review report*]

AR-C Section 9090

Review of Financial Statements: Accounting and Review Services Interpretation of Section 90

1. Considerations Related to Reviews Performed in Accordance With International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

.01 *Question*—Section 90, *Review of Financial Statements*, requires that the written review report include a statement that the accountant's responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA.[1] May a practitioner also indicate that the review was conducted in accordance with ISRE 2400 (Revised), issued by the International Auditing and Assurance Standards Board?

.02 *Interpretation*—Yes. A practitioner may review the financial statements of an entity in accordance with SSARSs and in accordance with another set of review standards (for example, ISRE 2400 [Revised]). In circumstances in which the accountant's review report states that the review was conducted in accordance with SSARSs and another set of review standards, the practitioner should comply with both sets of standards.

The following illustrates an independent accountant's review report in which the review was conducted in accordance with both SSARSs and ISRE 2400 (Revised).

Circumstances include the following:

- Review of a complete set of general purpose consolidated financial statements (comparative).
- Financial statements prepared in accordance with accounting principles generally accepted in the United States of America.

Independent Accountant's Review Report

[*Appropriate Addressee*]

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management (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.

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[1] Paragraph .39*e*(i) of section 90, *Review of Financial Statements*.

Management's Responsibility for the Financial Statements

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My (our) responsibility is to conduct the review engagements 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 Engagements 2400 (Revised) issued by the International Auditing and Assurance Standards Board. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

[*Signature of accounting firm, or accountant, as appropriate*]
[*Accountant's city and state*]
[*Date of the accountant's review report*]

The accountant should not refer to having conducted a review in accordance with ISRE 2400 (Revised) in addition to SSARSs, unless the review was conducted in accordance with both sets of standards in their entirety.

[Issue Date: February 2016.]

AR-C APPENDIXES

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AR-C Appendix A

[*Reserved*.]

AR-C TOPICAL INDEX

References are to AR-C section and paragraph numbers.