

# Statement on Standards for Accounting and Review Services

Issued by the Accounting and Review Services Committee

# 21

October 2014

## Statements on Standards for Accounting and Review Services: Clarification and Recodification

*(Supersedes all outstanding Statements on Standards for Accounting and Review Services through No. 20 except Statement on Standards for Accounting and Review Services No. 14, Compilation of Pro Forma Financial Information, as amended [AICPA, Professional Standards, AR sec. 120])*

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## Foreword

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 SSARs 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* (AICPA, *Professional Standards*), 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 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 (AICPA, *Professional Standards*, 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: Engagements Performed in Accordance With SSARSs*.

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.

## **Accounting and Review Services Committee (2013—2014)**

Michael L. Brand, <i>Chair</i>	Janice L. Gray
Joseph S. Beck	Mike Fleming
M. Aron Dunn	Kelly J. Hunter

## **(2012—2013)**

Michael L. Brand, <i>Chair</i>	Janice L. Gray
Joseph S. Beck	Angie J. Moss
Mike Fleming	Carl G. Peterson
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## **(2011—2012)**

Michael L. Brand, <i>Chair</i>	Charles J. McElroy
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Jay H. Goldberg	Thad Scott
Jefferey C. Lewis	

## **(2010—2011)**

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Chad M. Becnel	Charles J. McElroy
Michael Brand	James A. Smith
Gerald W. Burns	

## **(2009—2010)**

Carolyn H. McNerney, <i>Chair</i>	Jefferey C. Lewis
Chad M. Becnel	Charles J. McElroy
Cassandra Camp	James A. Smith
Gerald W. Burns	

## ARSC Clarity Task Force (2012–2014)

Charles J. McElroy, *Chair*      Michael L. Brand

### AICPA Staff

Charles E. Landes  
*Vice President*  
*Professional Standards*

Michael P. Glynn  
*Senior Technical Manager*  
*Audit and Attest Standards*  
*Staff Liaison—Accounting*  
*and Review Services*  
*Committee*

Richard I. Miller  
*Special Counsel*

**Note:** *Statements on Standards for Accounting and Review Services are issued by the Accounting and Review Services Committee (ARSC), the senior body of the Institute designated to promulgate standards under the “General Standards Rule” (AICPA, Professional Standards, ET sec. 1.1300.001) and the “Compliance With Standards Rule” (AICPA, Professional Standards, ET sec. 1.1310.001) of the AICPA Code of Professional 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.*





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## Section 60

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

### **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 (SSARs) 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 SSARs 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 SSARs. 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** SSARs 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. SSARs do not address the responsibilities of the accountant that may exist in legislation, regulation, or otherwise. Such responsibilities may differ from those established in SSARs. Accordingly, although the accountant may find aspects of SSARs 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 SSARs 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 SSARs.

## Definitions

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

**Engagement partner.**<sup>1</sup> 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 SSARs; exhibits to SSARs; the AICPA Guide *Compilation and Review Engagements*,<sup>2</sup> guidance on reviews, compilations, and engagements to prepare financial statements included

1. This term is also defined in paragraph .13 of QC section 10, *A Firm's System of Quality Control* (AICPA, *Professional Standards*), 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*.

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 SSARs 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 SSARs are those of the entity. SSARs do not impose 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 SSARs. (Ref: par. .A15–.A19)

## **Conduct of the Engagement in Accordance With SSARs**

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

## **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 SSARs 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)

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

### ***Defining Professional Responsibilities in SSARs***

**.15** SSARs 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. SSARs use the word “must” to indicate an unconditional requirement.
- *Presumptively mandatory requirements.* The accountant must comply with a presumptively mandatory requirement in all cases in which such a requirement is relevant, except in rare circumstances discussed in paragraph .16. SSARs 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 SSARs. (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 SSARs, 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 SSARs, 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 SSARs 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 SSARs, 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, *Review of Financial Statements*.

**.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 SSARs. 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* (AICPA, *Professional Standards*), sets out the firm's responsibilities to establish and maintain its system of quality control for engagements performed in accordance with SSARs 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.<sup>4</sup>

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

**Professional Judgment** (Ref: par. .09)

**.A15** Professional judgment is essential to the proper conduct of an engagement in accordance with SSARs because interpretation of relevant ethical requirements and SSARs 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 SSARs. 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 SSARs 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 SSARs. 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, *Review of Financial Statements*, 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 SSARs**

### ***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” (AICPA, *Professional Standards*, ET sec. 1.300.001) and the “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001) of the AICPA Code of Professional Conduct<sup>5</sup> 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 SSARs through a process that includes deliberation in meetings open to the public, public exposure of proposed SSARs, and a formal vote. SSARs are codified in AR-C sections in AICPA *Professional Standards*.

**.A21** SSARs provide the standards used for fulfilling the overall objectives of the accountant’s work. SSARs 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.

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>.

**.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 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 SSARs. These are provided to assist in the consistent application and interpretation of SSARs 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 SSARs.

***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 SSARs*** (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 SSARs. *Interpretive publications* are recommendations on the application of SSARs 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 SSARs. Compilation and review interpretations of SSARs and exhibits to SSARs 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 SSARs. 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 SSARs 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 SSARs 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 SSARs***

(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 SSARs are appropriate:

- The integrity of the principle 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.

.A50

## 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](http://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 Practice Aids Accounting and Compilation and Review Technical Questions and Answers (TIS) Sections**  
(available in hard copy)

### Special Purpose Frameworks

- TIS Section 1500.07, “Disclosure Concerning Subsequent Events in Special Purpose Financial Statements”
- TIS 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

- TIS Section 9150.04, “Financial Statements Marked As ‘Unaudited’”
- TIS Section 9150.08, “Supplementary Information”
- TIS Section 9150.09, “Applicability of AR Section 300 to Certain Companies Required to File With Regulatory Bodies”

- TIS Section 9150.10, “Review of Financial Statements Included in a Prescribed Form”
- TIS Section 9150.16, “Reference to Accountant’s Report in Notes to Financial Statements”
- TIS Section 9150.18, “Bank Engaged an Accountant to Compile a Financial Statement of Another Entity”
- TIS Section 9150.20, “Reissuance When Not Independent”
- TIS 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”
- TIS Section 9150.25, “Determining Whether Financial Statements Have Been Prepared by the Accountant”
- TIS Section 9150.26, “The Accountant’s Responsibilities for Subsequent Events in Compilation and Review Engagements”
- TIS Section 9150.27, “The Accountant’s Reporting Responsibility With Respect to Subsequent Discovery of Facts Existing at the Date of the Report”
- TIS Section 9150.28, “Compilation Engagement When the Accountant Is Performing Management Functions”
- TIS 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”
- TIS 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”
- TIS Section 9150.31, “Break-Even Financial Statements”

### ***Compilation of Financial Statements***

- TIS Section 1300.17, “Omission of Reconciliation of Net Income to Cash Flow From Operations”
- TIS Section 9160.26, “Compilation and Review—Comparative Financial Statements”

- TIS 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***

- TIS Section 1300.17, “Omission of Reconciliation of Net Income to Cash Flow From Operations”
- TIS Section 9110.07, “Statement of Cash Receipts and Disbursements”

### ***Review of Financial Statements***

- TIS 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***

- TIS Section 8800.30, “Making Reference to Review Report”
- TIS Section 9110.07, “Statement of Cash Receipts and Disbursements”

### ***Other Publications***

*Corporations: Checklists and Illustrative Financial Statements*

*The Engagement Letter: Best Practices and Examples*



## Section 70

# Preparation of Financial Statements

### 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.<sup>1</sup> (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 nonat-test service and does not require a determination about whether the accountant is independent of the entity. (Ref: par. .A3)

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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.

**.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.

### **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 SSARs, 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 .25c 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 statement 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” (AICPA, *Professional Standards*, 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 .25c 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.

<i>Examples of Services for Which This Section Applies</i>	<i>Examples of Accountant Services for Which This Section Does Not Apply</i>
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

<i>Examples of Services for Which This Section Applies</i>	<i>Examples of Accountant Services for Which This Section Does Not Apply</i>
	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:<sup>1</sup>

You<sup>2</sup> 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.<sup>3, 4</sup> 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

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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.

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.

### **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 prevention and detection of fraud
- b.* To ensure that the entity complies with the laws and regulations applicable to its activities
- c.* 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
- d.* 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.]*

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,

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*[Signature of accountant or accountant's firm]*

Acknowledged and agreed on behalf of ABC Company by:

\_\_\_\_\_  
[Signed]  
[Name and Title]

\_\_\_\_\_  
[Date]



## Section 80

# Compilation Engagements

### 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.<sup>1</sup> (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.

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.



## Definitions

**.05** For purposes of SSARs, 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.

**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 SSARs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to the “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001) and the “Accounting Principles Rule” (AICPA, *Professional Standards*, 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 finan-

cial 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.

**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 .25c 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

### 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 SSARs is conducted on the premise that management has acknowledged and understands that it has the responsibility set out in paragraph .25c 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" (AICPA, *Professional Standards*, ET section 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 .25c 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.<sup>2</sup>

### **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."

**.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.<sup>3</sup>

### **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

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."

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.

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.<sup>4</sup>

### **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:

#### ***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. 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:

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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.

### ***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. 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:<sup>1</sup>

You<sup>2</sup> 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.<sup>3, 4</sup> We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

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 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.

## **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 (SSARs) 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 SSARs:

- a. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America
- b. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- c. The prevention and detection of fraud
- d. To ensure that the entity complies with the laws and regulations applicable to its activities
- e. To make all financial records and related information available to us
- f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

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.

### **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.]*

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,

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*[Signature of accountant or accountant's firm]*

Acknowledged and agreed on behalf of ABC Company by:

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*[Signed]*

*[Name and Title]*

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*[Date]*

**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:<sup>1</sup>

You<sup>2</sup> 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.<sup>3</sup> 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 (SSARs) 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 SSARs:



- a. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America
- b. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- c. The prevention and detection of fraud
- d. To ensure that the entity complies with the laws and regulations applicable to its activities
- e. To make all financial records and related information available to us
- f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

### **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.

### **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.]*

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,

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*[Signature of accountant or accountant's firm]*

Acknowledged and agreed on behalf of ABC Company by:

---

*[Signed]*

*[Name and Title]*

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*[Date]*

### **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:<sup>1</sup>

You<sup>2</sup> 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.<sup>3, 4</sup> We are pleased to confirm our acceptance and our understanding of this compilation 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. 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.

## 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 (SSARs) 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 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 SSARs:

- a.* The preparation and fair presentation of financial statements in accordance with the tax-basis of accounting

- b.* 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.<sup>5</sup>
- 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.* To make all financial records and related information available to us
- g.* The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the compilation engagement

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.

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5. The responsibility described in *b(ii)* need not be included if the financial statements omit substantially all disclosures required by the financial reporting framework.

## 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.]*

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,

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*[Signature of accountant or accountant's firm]*

Acknowledged and agreed on behalf of ABC Company by:

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*[Signed]*

*[Name and Title]*

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*[Date]*

.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

**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

**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

**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

**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

**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

**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]*

## Section 90

### Review of Financial Statements

#### 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* (AICPA, *Professional Standards*), 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 SSARs, 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.

**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” (AICPA, *Professional Standards*, ET sec. 1.310.001) and the “Accounting Principles Rule” (AICPA,

*Professional Standards*, 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 SSARs, 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. SSARs 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 SSARs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to the “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001) and the “Accounting Principles Rule” (AICPA, *Professional Standards*, 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 SSARs, 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 SSARs. 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 .25c 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 SSARs 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 .61a–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. .A100–.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 SSARs;
- 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 .25c 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" (AICPA, *Professional Standards*, 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 .25c 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 charged 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 .39*f*)

**.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 .34a–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 .34f–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 .39c(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 SSARs 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 SSARs in the accountant's review report unless the accountant has complied with the relevant requirements within the body of SSARs.

### *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 .61a–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 .75c 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 .39f 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.<sup>1</sup>

### **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 SSARs 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 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

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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."

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** 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 .74b, 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.<sup>2</sup>

## 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:

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.

**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 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 non-financial 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:<sup>1</sup>

You<sup>2</sup> 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.<sup>3</sup> We are pleased to confirm our acceptance and 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. 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

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.

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 SSARs:

- 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.* To make all financial records and related information available to us
- g.* The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement
- h.* To provide us with unrestricted access to persons within the entity of whom we determine it necessary to make inquiries
- i.* 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.

## 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.]*

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]

## **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:<sup>1</sup>

You<sup>2</sup> 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.<sup>3</sup> 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 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.

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.

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.* To make all financial records and related information available to us
- g.* The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement
- h.* To provide us with unrestricted access to persons within the entity of whom we determine it necessary to make inquiries
- i.* 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.

## **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.]*

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]

.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 auditor may consider necessary.]*

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*[Name of Chief Executive Officer and Title]*

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*[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

**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

**Illustration 3**—An Accountant's Review Report on Single Year Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

**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

**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

**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

**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 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 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 state-

ments 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 the partnership uses for income tax purposes. I (We) believe that the results of my (our) procedures provide a reasonable basis for 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 SSARs (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 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 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 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]*