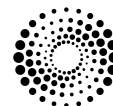


SELF-STUDY CONTINUING PROFESSIONAL EDUCATION

Companion to PPC's Guide to

GAAS



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Interactive Self-study CPE
Companion to PPC's Guide to
GAAS

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INTRODUCTION

PPC's *Guide to GAAS* consists of two interactive self-study CPE courses. These are companion courses to PPC's *Guide to GAAS* designed by our editors to enhance your understanding of the latest issues in the field. To obtain credit, you must complete the learning process by logging on to our Online Grading System at **OnlineGrading.Thomson.com** or by mailing or faxing your completed **Examination for CPE Credit Answer Sheet** for print grading by **December 31, 2010**. Complete instructions are included below and in the Test Instructions preceding the Examination for CPE Credit Answer Sheet.

Taking the Course[s]

Each course is divided into lessons. Each lesson addresses an aspect of generally accepted auditing standards. You are asked to read the material and, during the course, to test your comprehension of each of the learning objectives by answering self-study quiz questions. After completing each quiz, you can evaluate your progress by comparing your answers to both the correct and incorrect answers and the reason for each. References are also cited so you can go back to the text where the topic is discussed in detail. Once you are satisfied that you understand the material, **answer the examination questions which follow each lesson**. You may either record your answer choices on the printed **Examination for CPE Credit Answer Sheet** or by logging on to our Online Grading System.

Qualifying Credit Hours—QAS or Registry

PPC is registered with the National Association of State Boards of Accountancy as a sponsor of continuing professional education on the National Registry of CPE Sponsors (Registry) and as a Quality Assurance Service (QAS) sponsor. Part of the requirements for both Registry and QAS membership include conforming to the *Statement on Standards of Continuing Professional Education (CPE) Programs* (the standards). The standards were developed jointly by NASBA and the AICPA. As of this date, not all boards of public accountancy have adopted the standards. Each course is designed to comply with the standards. For states adopting the standards, recognizing QAS hours or Registry hours, credit hours are measured in 50-minute contact hours. Some states, however, require 100-minute contact hours for self study. Your state licensing board has final authority on accepting Registry hours, QAS hours, or hours under the standards. Check with the state board of accountancy in the state in which you are licensed to determine if they participate in the QAS program or have adopted the standards and allow QAS CPE credit hours. Alternatively, you may visit the NASBA website at **www.nasba.org** for a listing of states that accept QAS hours or have adopted the standards. Credit hours for CPE courses vary in length. Credit hours for each course are listed on the "Overview" page before each course.

CPE requirements are established by each state. You should check with your state board of accountancy to determine the acceptability of this course. We have been informed by the North Carolina State Board of Certified Public Accountant Examiners and the Mississippi State Board of Public Accountancy that they will not allow credit for courses included in books or periodicals.

Obtaining CPE Credit

Online Grading. Log onto our Online Grading Center at **OnlineGrading.Thomson.com** to receive instant CPE credit. Click the purchase link and a list of exams will appear. You may search for the exam using wildcards. Payment for the exam is accepted over a secure site using your credit card. For further instructions regarding the Online Grading Center, please refer to the Test Instructions preceding the Examination for CPE Credit Answer Sheet. A certificate documenting the CPE credits will be issued for each examination score of 70% or higher.

Print Grading. You can receive CPE credit by mailing or faxing your completed Examination for CPE Credit Answer Sheet to the Tax & Accounting business of Thomson Reuters for grading. Answer sheets are located at the end of all course materials. Answer sheets may be printed from electronic products. The answer sheet is identified with the course acronym. Please ensure you use the correct answer sheet for each course. Payment of \$79 (by check or credit card) must accompany each answer sheet submitted. We cannot process answer sheets that do not include payment. Please take a few minutes to complete the Course Evaluation so that we can provide you with the best possible CPE.

You may fax your completed **Examination for CPE Credit Answer Sheet** to the Tax & Accounting business of Thomson Reuters at **(817) 252-4021**, along with your credit card information.

If more than one person wants to complete this self-study course, each person should complete a separate **Examination for CPE Credit Answer Sheet**. Payment of \$79 must accompany each answer sheet submitted. We would also appreciate a separate **Course Evaluation** from each person who completes an examination.

Express Grading. An express grading service is available for an **additional \$24.95** per examination. Course results will be faxed to you by 5 p.m. CST of the business day following receipt of your Examination for CPE Credit Answer Sheet. Expedited grading requests will be accepted by fax only if accompanied with credit card information. Please fax express grading to the Tax & Accounting business of Thomson Reuters at (817) 252-4021.

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PPC In-House Training

A number of in-house training classes are available that provide up to eight hours of CPE credit. Please call our Sales Department at (800) 323-8724 for more information.

COMPANION TO PPC'S GUIDE TO GAAS**COURSE 1****ACCOUNTING AND REVIEW SERVICES PERFORMANCE STANDARDS (GASTG091)****OVERVIEW**

COURSE DESCRIPTION:	This interactive self-study course examines the standards for services provided on unaudited financial statements or information of nonpublic entities. Users will learn the AICPA Statements on Standards for Accounting and Review Services (SSARS) that apply to accounting and review services. Users will differentiate between services to which SSARS apply and do not apply. Users will learn the requirements for accepting compilation and review engagements and developing required compilation and review procedures. Users will be able to differentiate between compilations and compilations of management-use-only financial statements. Users will have the necessary language for required engagement and representation letters.
PUBLICATION/REVISION DATE:	December 2009
RECOMMENDED FOR:	Users of <i>PPC's Guide to GAAS</i>
PREREQUISITE/ADVANCE PREPARATION:	Basic knowledge of financial statements
CPE CREDIT:	6 QAS Hours, 6 Registry Hours Check with the state board of accountancy in the state in which you are licensed to determine if they participate in the QAS program and allow QAS CPE credit hours. This course is based on one CPE credit for each 50 minutes of study time in accordance with standards issued by NASBA. Note that some states require 100-minute contact hours for self study. You may also visit the NASBA website at www.nasba.org for a listing of states that accept QAS hours.
FIELD OF STUDY:	Accounting
EXPIRATION DATE:	Postmark by December 31, 2010
KNOWLEDGE LEVEL:	Basic

Learning Objectives:**Lesson 1—Overview of Standards for Compilation and Review Engagements**

Completion of this lesson will enable you to:

- Identify the applicability of the AICPA Statements on Standards for Accounting and Review Services (SSARS).
- Identify services to which SSARS do not apply and apply other AICPA standards that apply to accounting and review services engagements.

Lesson 2—Performing Compilation and Review Engagements

Completion of this lesson will enable you to:

- Identify the requirements for accepting accounting and review services engagements.
- Recognize required compilation and review procedures.
- Identify considerations in a change in the level of engagement and subsequent discovery of facts existing at the date of the report.
- Differentiate on compilation of management-use-only financial statements and prepare required engagement and representation letters.

TO COMPLETE THIS LEARNING PROCESS:

Send your completed **Examination for CPE Credit Answer Sheet, Course Evaluation**, and payment to:

**Thomson Reuters
Tax & Accounting—R&G
GASTG091 Self-study CPE
36786 Treasury Center
Chicago, IL 60694-6700**

See the test instructions included with the course materials for more information.

ADMINISTRATIVE POLICIES:

For information regarding refunds and complaint resolutions, dial (800) 323-8724 for Customer Service and your questions or concerns will be promptly addressed.

Lesson 1: Overview of Standards for Compilation and Review Engagements

INTRODUCTION

Standards for services provided on unaudited financial statements or information of nonissuers generally are contained in AICPA Statements on Standards for Accounting and Review Services (SSARS). SSARS are issued by the AICPA Accounting and Review Services Committee (ARSC). References to specific SSARS standards will be noted as AR. Rule 202 of the AICPA *Code of Professional Conduct* requires members performing compilation or review services to comply with standards of the Accounting and Review Services Committee (AR 50.03).

SSARS No. 1, as amended, establishes standards and provides guidance on compilations and reviews of financial statements. When a nonissuers' financial statements will be submitted to a client or third party, the accountant should, at a minimum, follow the requirements in SSARS No. 1 for a compilation. SSARS No. 1 defines *nonissuer* as "all entities except those defined as issuers." It explains that issuers are defined in Section 3 of the Securities Exchange Act of 1934 and have securities registered under section 12 of that Act, or are required to file reports under section 15(d), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933, and have not been withdrawn. AR 100.04

Learning Objectives:

Completion of this lesson will enable you to:

- Identify the applicability of the AICPA Statements on Standards for Accounting and Review Services (SSARS).
- Identify services to which SSARS do not apply and apply other AICPA standards that apply to accounting and review services engagements.

SSARS Hierarchy

SSARS No. 11, *Standards for Accounting and Review Services*, establishes a SSARS hierarchy with the following three levels—

- *Statements on Standards for Accounting and Review Services (SSARS)*. The SSARS provide performance and reporting standards for compilations and reviews. Accountants must comply with SSARS in the performance of compilation and review engagements and should be prepared to justify departures from the SSARS. (AR 50.01–.04)
- *Interpretative Publications*. Interpretative publications include Interpretations of the SSARS, appendixes to the SSARS, compilation and review guidance included in AICPA Audit and Accounting Guides, and AICPA Statements of Position to the extent that those Statements are applicable to compilation and review engagements. Interpretive publications are not standards for accounting and review services but rather are recommendations regarding the application of the SSARS in particular circumstances. Accountants should consider the applicability of interpretive publications to specific engagements and be prepared to justify a departure from an interpretative publication. (AR 50.05–.06)
- *Other Compilation and Review Publications*. Other compilation and review publications consist of AICPA accounting and review publications not previously listed, the AICPA's annual Compilation and Review Alert, compilation and review articles in the Journal of Accountancy and other professional journals, compilation and review articles in the AICPA CPA Letter, and other compilation and review materials published by state CPA societies or other organizations or individuals. Other compilation and review publications are not authoritative, but may assist accountants in understanding and applying the SSARS. Accountants should consider the relevance and appropriateness of other compilation and review publications before relying on such information. (AR 50.07–.08)

SSARS Pronouncements Issued

The following SSARS have been issued:

- SSARS No. 1 (AR 100)—*Compilation and Review of Financial Statements*.
- SSARS No. 2 (AR 200)—*Reporting on Comparative Financial Statements*.
- SSARS No. 3 (AR 300)—*Compilation Reports on Financial Statements Included in Certain Prescribed Forms*.
- SSARS No. 4 (AR 400)—*Communications Between Predecessor and Successor Accountants*.
- SSARS No. 5 (incorporated in AR 100, 200, and 300)—*Reporting on Compiled Financial Statements*.
- SSARS No. 6 (AR 600)—*Reporting on Personal Financial Statements Included in Written Personal Financial Plans*.
- SSARS No. 7 (incorporated in AR 100–400)—*Omnibus Statement on Standards for Accounting and Review Services—1992*.
- SSARS No. 8 (incorporated in AR 100)—*Amendment to Statement on Standards for Accounting and Review Services No. 1, “Compilation and Review of Financial Statements.”*
- SSARS No. 9 (incorporated in AR 100 and 400)—*Omnibus Statement on Standards for Accounting and Review Services—2002*.
- SSARS No. 10 (incorporated in AR 100)—*Performance of Review Engagements*.
- SSARS No. 11 (AR 50)—*Standards for Accounting and Review Services*.
- SSARS No. 12 (amends AR 100 and 200)—*Omnibus Statement on Standards for Accounting and Review Services—2005*.
- SSARS No. 13 (AR 100)—*Compilation of Specified Elements, Accounts, or Items of a Financial Statement*.
- SSARS No. 14 (AR 120)—*Compilation of Pro Forma Financial Information*.
- SSARS No. 15 (incorporated in AR 100–400)—*Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services*.
- SSARS No. 16 (AR 20)—*Defining Professional Requirements in Statements on Standards for Accounting and Review Services*
- SSARS No. 17 (incorporated in AR 100–300)—*Omnibus Statement on Standards for Accounting and Review Services—2008*.
- SSARS No. 18 (amends AR 100)—*Applicability of Statements on Standards for Accounting and Review Services*.

SSARS No. 16—Professional Requirements. SSARS No. 16 (AR 20) defines the terminology used in SSARs to describe the degrees of responsibility that the requirements impose on the accountant. It establishes two levels of requirements: (a) those that are unconditional (expressed as “must” or “is required”) and (b) those that are presumptively mandatory (expressed as “should”).

Accountants are required to comply with both types of requirements in all situations where existing requirements make them applicable. However, in rare circumstances, accountants may depart from a presumptively mandatory

requirement as long as the accountant documents (a) the justification for the departure and (b) how alternative procedures were sufficient to achieve the objectives of the presumptively mandatory requirement. When a standard says the accountant “should consider” an action, the presumptively mandatory requirement is the consideration, not the action itself, which the accountant might or might not deem necessary. The terms “may,” “might,” “could,” and “often does” do not connote requirements.

This course discusses the applicability of SSARS to various types of services and SSARS performance standards and some of the numerous interpretations (AR 9X00) that have been issued in conjunction with the SSARS to which they relate. A reference to AR 9100.XX refers to an interpretation of SSARS No. 1, a reference to AR 9200.XX refers to an interpretation of SSARS No. 2, etc.

Applicability of Ethics Standards to Accounting and Review Services

The general standards of Rule 201 of the AICPA *Code of Professional Conduct* apply to services covered by SSARS. The SSARS pronouncements discussed in this course enable accountants to comply with Rule 201 in an accounting or review service engagement. Rule 202 requires adherence to SSARS when performing compilations and reviews.

Independence. Independence is not required for SSARS compilation engagements but is required for review engagements. Several ethics rulings and interpretations as well as a conceptual framework related to independence have been issued and others are in the exposure draft stage. Practitioners should be alert for recent and future changes that may affect their independence.

Applicability of Quality Control Standards to Accounting and Review Services

AICPA quality control standards apply to a firm's accounting and review practice. AR 100.94 states that firms should establish quality control policies and procedures that provide reasonable assurance of firm personnel complying with SSARS in compilation and review engagements. AR 100.95 states that although SSARS and quality control standards are related, deficiencies in or instances of noncompliance with a firm's quality control policies and procedures do not, in and of themselves, indicate that a particular compilation or review engagement was not performed in accordance with SSARS.

Applicability of Peer Review Requirements to Accounting and Review Services

The AICPA peer review requirements clearly apply to SSARS reviews, as well as to compilations *when a report is issued*. AICPA Bylaw 2.2.3, *Requirements for Admission to Membership*, states the following:

With respect to those persons who are engaged in the practice of public accounting as an owner or as an employee who has been licensed as a CPA for more than two years, either they are practicing in a firm that is enrolled in an Institute-approved practice-monitoring program if the services performed by such a firm are within the scope of the AICPA's practice-monitoring standards and the firm issues reports purporting to be in accordance with AICPA professional standards, or if authorized by Council, are themselves enrolled in such a program. (Emphasis added.)

The *practice of public accounting* includes services performed under SSARS. SSARS requires the accountant to issue a report on a review. It also requires a compilation report unless the accountant takes advantage of the exemption provided by SSARS No. 8. (SSARS No. 8 is discussed later in this course.) Thus, CPAs who issue SSARS review or compilation reports must be in a firm that is enrolled in an AICPA-approved practice-monitoring program or if the CPA is in a non-CPA owned firm and issues a compilation report, the CPA must individually be in a peer review program.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

1. Which of the following is an authoritative compilation and review publication?
 - a. AICPA's annual Compilation and Review Alert.
 - b. Compilation and review articles in the AICPA CPA Letter.
 - c. Statements on Standards for Accounting and Review Services.
 - d. Compilations and review materials published by state CPA societies.
2. Which of the following is **not** a SSARS that has been issued?
 - a. Reporting on Comparative Financial Statements.
 - b. Review of Pro Forma Financial Information.
 - c. Reporting on Personal Financial Statements Included in Written Personal Financial Plans.
 - d. Communications Between Predecessor and Successor Accountants.
3. Which of the following AICPA standards generally do **not** apply to compilations?
 - a. Quality control standards.
 - b. Peer Review requirements.
 - c. Ethics standards.
 - d. Independence standards.
4. In which of the following situations would the AICPA permit CPAs employed in non-CPA companies to prepare compilations?
 - a. The CPA, individually, is in a state peer review program.
 - b. The non-CPA company is enrolled in a state peer-review program.
 - c. The CPA employee signs the compilation report in the non-CPA company's name.
 - d. The CPA is employed by an AICPA approved non-CPA organization.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

1. Which of the following is an authoritative compilation and review publication? **(Page 3)**

- a. AICPA's annual Compilation and Review Alert. [This answer is incorrect. Accountants should consider the relevance of this publication to help them understand and apply the SSARS, but it is not authoritative.]
- b. Compilation and review articles in the AICPA CPA Letter. [This answer is incorrect. Accountants may be assisted by this publication in completing compilations and review, but it is not authoritative.]
- c. **Statements on Standards for Accounting and Review Services. [This answer is correct. Accountants must comply with SSARS in the performance of compilation and review engagements based on the AICPA's Accounting and Review Services Committee and should be prepared to justify departures from the publications.]**
- d. Compilations and review materials published by state CPA societies. [This answer is incorrect. When completing a compilation or review, accountants may find the information published by state CPA societies helpful, but it is not authoritative.]

2. Which of the following is **not** a SSARS that has been issued? **(Page 4)**

- a. Reporting on Comparative Financial Statements. [This answer is incorrect. The AICPA has issued SSARS No. 2 (AR 200), *Reporting on Comparative Financial Statements*.]
- b. **Review of Pro Forma Financial Information. [This answer is correct. The AICPA has issued SSARS No 14 (AR 120), *Compilation of Pro Forma Financial Information*. The AICPA does not allow a review of pro forma information.]**
- c. Reporting on Personal Financial Statements Included in Written Personal Financial Plans. [This answer is incorrect. The AICPA has issued SSARS No. 6 (AR 600), *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*.]
- d. Communications Between Predecessor and Successor Accountants. [This answer is incorrect. The AICPA has issued SSARS No. 4 (AR 400), *Communications Between Predecessor and Successor Accountants*.]

3. Which of the following AICPA standards generally do **not** apply to compilations? **(Page 5)**

- a. Quality control standards. [This answer is incorrect. AR 100.94 states that firms should establish quality control policies and procedures that provide reasonable assurance of firm personnel complying with SSARS in compilation and review engagements.]
- b. Peer Review requirements. [This answer is incorrect. The AICPA peer review requirements generally apply to SSARS compilation and review engagements per AICPA Bylaw 2.2.3.]
- c. Ethics standards. [This answer is incorrect. Rule 202 of the AICPA *Code of Professional Conduct* requires adherence to SSARS when performing compilation and review engagements.]
- d. **Independence standards. [This answer is correct. Rule 101 of the AICPA *Code of Professional Conduct* requires independence in review engagements but not in compilation engagements.]**

4. In which of the following situations would the AICPA permit CPAs employed in non-CPA companies to prepare compilations? **(Page 5)**
- a. **The CPA, individually, is in a state peer review program. [This answer is correct. A resolution of the AICPA Council allows CPA in non-CPA owned firms to perform compilations, requiring the individual to be enrolled in a peer review program.]**
 - b. The non-CPA company is enrolled in a state peer review program. [This answer is incorrect. Non-CPA companies may not be enrolled in peer review programs.]
 - c. The CPA employee signs the compilation report in the non-CPA company's name. [This answer is incorrect. A resolution of the AICPA Council allows CPAs in non-CPA owned firms to perform compilations, requiring the individual to sign the compilation report in his or her own name.]
 - d. The CPA is employed by an AICPA approved non-CPA organization. [This answer is incorrect. The AICPA does not approve non-CPA organizations.]

Applicability of Peer Review Requirements to Compilations of Management-use-only Financial Statements.

The AICPA Peer Review Board's Interpretation No. 6 of Peer Review Standards for peer reviews commencing on or after January 1, 2009 states that the peer review requirement does not apply to SSARS No. 8 compilations of management-use-only financial statements not involving issuance of a compilation report when accountants perform such engagements as their highest level of service. That is, those engagements in and of themselves will not subject the firm to peer review. The Interpretation also states, however, that SSARS No. 8 engagements of firms that already are subject to peer review (because, for instance, they perform SSARS reviews in addition to SSARS No. 8 compilations) will be included with those engagements to be reviewed by the peer reviewers. The Interpretation notes that this does not mean that SSARS No. 8 engagements *must* be selected for review, but only that they are within the scope of the existing engagement selection process and thus might be selected.

Applicability of SSARS

SSARS apply to accounting and review services performed for a *nonissuer*. Specifically, SSARS establish standards and provide guidance on compilations and reviews of financial statements. An accountant should not *submit* unaudited *financial statements* of a nonissuer to his or her client or a *third party* unless, as a minimum, he or she complies with the requirements in AR 100 for a compilation engagement. (AR 100.01). Terms shown in *italics* in this paragraph are defined in the following paragraphs.

Applicability of SSARS when Performing Controllorship or Other Management Services. CPAs in the practice of public accounting may provide an entity with controllorship or other management services that involve the submission of financial statements. An Interpretation at AR 9100.80 entitled "Applicability of SSARS No. 1 When Performing Controllorship or Other Management Services" addresses this situation. The Interpretation states that if the accountant is in the practice of public accounting but is not a stockholder, partner, director, officer, or employee of the entity, he is required to follow the performance and communication requirements of SSARS No. 1. The performance requirements are discussed later in this course. The communication requirements may be fulfilled by a SSARS compilation report or by the communication required by SSARS No. 8 if compiled management-use only financial statements are submitted.

If the accountant is in the practice of public accounting and also is a stockholder, partner, director, officer, or employee of the entity, he may do one of the following:

- a. comply with the SSARS No. 1 requirements (that is, by following the SSARS performance standards and by issuing a SSARS compilation report or the communication required by SSARS No. 8 if compiled management-use only financial statements are submitted) or
- b. communicate, preferably in writing, his relationship to the entity as, for example, a stockholder, partner, director, officer, or employee. The Interpretation gives the following example of such a communication:

The accompanying balance sheet of Company X as of December 31, 20XX, and the related statements of income and cash flows for the year then ended have been prepared by [Name of Accountant], CPA. I have prepared such financial statements in my capacity [Describe capacity, for example, as a director.] of Company X.

Per Ruling 10, *Submission of Financial Statements by a Member in Public Practice*, if a member in public practice submits an entity's financial statements in the capacity as an employee, officer, director, stockholder, or partner of the entity to third parties, the member should communicate, preferably in writing, the member's relationship to the entity, without implying independence of it.

The Interpretation also states that if the accountant is not in the practice of public accounting, he may not issue a SSARS report but may issue the communication quoted above.

Services to Which SSARS Do Not Apply. Accountants might provide various services in connection with a compilation or review engagement or as a separate engagement. SSARS do not apply to the following accounting and other services:

- a. Most services related to presentations of specified elements, accounts, or items of a financial statement. Generally, SSARS apply only to services provided with respect to financial statements. Presentations of

specified elements, accounts, or items of a financial statement are not financial statements. However, SSARS No. 13 expands SSARS to apply to compilations of specified elements, accounts, or items of a financial statement. Except for compilations, the following standards other than SSARS apply to elements, accounts, or items of financial statements of a nonissuer:

- (1) Engagements to render an opinion on specified elements, accounts, or items—SAS No. 62.
 - (2) Application of agreed-upon procedures to specified elements, accounts, or items of a financial statement—SSAE No. 10, AT 201.
 - (3) Review of specified elements, accounts, or items of a financial statement—SSAE No. 10, AT 101.
- b. Services provided with respect to forecasts and projections. Such presentations are not financial statements for purposes of SSARS. Attestation standards apply to such services.
 - c. Services provided with respect to financial presentations included in tax returns. AR 100.04 states that such presentations are not financial statements for purposes of SSARS No. 1.
 - d. Services related to business valuations when the accountant derives financial information from an entity's tax return to be presented as part of a business valuation. Even if the accountant has derived the financial information for the business valuation from a tax return he or she has prepared, SSARS do not apply since financial forecasts, projections and similar presentations, and financial presentations included in tax returns are not considered financial statements in accordance with AR 100.04. (AR 9100.89–.92)
 - e. Litigation services, if certain conditions are met, as discussed later in this course.
 - f. Services related to unaudited financial statements of an issuer. (SAS No. 26 applies except for situations discussed later in this course, in which cases SSARS apply.)
 - g. Reviews of a nonissuer's interim financial information when certain conditions are met.
 - h. Services to provide oral or written advice to an entity about the application of accounting principles or the type of report to be issued on its financial statements. AR 9400.03–.05 refers the accountant to SAS No. 50, *Reports on the Application of Accounting Principles*, for guidance.

Submission of Draft Financial Statements. SSARS reporting requirements do not apply to draft financial statements an accountant submits to a client as long as—(AR 9100.62)

- a. the accountant intends to submit the statements in final form, and
- b. each page of the draft is labeled with "Draft," "Draft—subject to changes," or similar words.

Applicability of SSARS When Preparing Financial Statements for Use by an Entity's Auditors. SSARS require the accountant to either (a) issue a compilation report or (b) document, in an engagement letter, an understanding with the client about the services to be performed and the limitations on the use of the financial statements when unaudited financial statements that are not expected to be used by a third party are submitted to the client. (AR 100.24) An Interpretation at AR 9100.136 clarifies that when an accountant is engaged to prepare unaudited financial statements on behalf of management for use by an entity's outside auditors in connection with an audit of the statements, the auditors are not considered to be a third party using the financial statements. In this situation, the requirements of AR 100.24 are applicable.

Applicability of SSARS to Litigation Services. SSARS do not apply to financial statements submitted in conjunction with litigation services when any of the following conditions are met: (AR 9100.77)

- The service consists of being an expert witness.

- The service consists of being a *trier of fact* or acting on behalf of one.
- The accountant's work under the rules of the proceedings is subject to detailed analysis and challenge by each party to the dispute.
- The accountant is engaged by an attorney to do work that will be protected by the attorney's work-product privilege and such work is not intended to be used for other purposes.

SSARS do apply to litigation services when the accountant submits unaudited financial statements of a nonissuer that are the representation of management (owners) to those who under the rules of the proceedings do not have the opportunity to analyze and challenge the accountant's work. SSARS also apply if the accountant is specifically engaged to submit in accordance with SSARS, financial statements that are the representation of management (owners).

Unaudited Financial Statements of an Issuer. SSARS generally apply to unaudited financial statements of nonissuers. SAS No. 26, applies to unaudited financial statements of issuers. SAS No. 26, footnote 4, provides that a SSARS review may be performed on an issuer's annual or interim financial statements if the entity does not have its annual financial statements audited. The SSARS standards discussed in this course would apply to such a review.

Interim Financial Information of a Nonissuer. SSARS No. 18, *Applicability of Statements on Standards for Accounting and Review Services*, states that SSARS are not applicable to reviews of a nonissuer's interim financial information when *all* of the following conditions are met: (AR 100.01)

- a. The entity's latest annual financial statements have been audited.
- b. The accountant has been engaged to audit the current year financial statements, or audited the prior year annual financial statements and expects to be engaged to audit the current year financial statements.
- c. The interim financial information is prepared using the same financial reporting framework that is used for the annual financial statements.

When the above conditions are met, the interim reviews should be performed in accordance with SAS No. 116 (AU 722), *Interim Financial Information*.

Applicability of SSARS to Compilations of Specified Elements, Accounts, or Items. SSARS No. 13, *Compilation of Specified Elements, Accounts, or Items of a Financial Statement* (AR 110), expanded SSARS to cover services when an accountant is engaged to compile, or issues a compilation report on, specified elements, accounts, or items of a financial statement.

Applicability of SSARS to Compilations of Pro Forma Financial Information. SSARS No. 14, *Compilation of Pro Forma Financial Information* (AR 120), expanded SSARS to cover services when an accountant is engaged to compile, or issues a compilation report on, pro forma financial information. Pro forma financial information, in essence, adjusts historical information to show the possible effects of a completed or proposed transaction, such as a business combination.

Definitions Related to SSARS

Nonissuer. SSARS apply to accounting and review services provided for nonissuers. *Nonissuers* are defined as "all entities except for those defined as issuers." (AR 100.04)

Issuer. *Issuers* are defined in section 3 of the Securities Exchange Act of 1934 and have securities registered under section 12 of that Act, or are required to file reports under section 15(d), or that file or have filed a registration statement that has not yet become effective under the Securities Act of 1933, and have not been withdrawn. (AR 100.04)

Compilation. A *compilation* of financial statements is "a service, the objective of which is to present in the form of financial statements information that is the representation of management (owners) without undertaking to express

any assurance” on them. (AR 100.04) SSARS Nos. 13 and 14 expanded the scope of compilation services to cover more than just financial statements. Because of this, the definitions of compilation services in SSARS Nos. 13 and 14 are slightly different, discussing the presentation of financial information, not the presentation of information in the form of financial statements. (AR 110.02 and AR 120.02)

Review. A review of financial statements is “a service, the objective of which is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with GAAP.” (AR 100.04)

Financial Statements. Except as provided by SSARS No. 13 related to specified elements, accounts, or items and SSARS No. 14 related to pro forma financial information, SSARS apply only to *financial statements* of a nonpublic entity. Financial statements are defined as “a presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity’s economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with generally accepted accounting principles (GAAP) or an OCBOA.” The following are examples of financial statements and are not meant to be all inclusive: (AR 100.04)

Appropriate GAAP Financial Statement Titles

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

Appropriate OCBOA Financial Statement Titles

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

- Statement of operations—income tax basis.

For the purposes of SSARS, financial forecasts, financial projections, and presentations included in tax returns are not financial statements, and SSARS do not apply to such presentations. In addition, trial balances are not financial statements, and thus, SSARS do not apply to them. However, the distinction between the two is sometimes blurry. An interpretation at AR 9100.54–.57 gives guidance on differentiating a financial statement from a trial balance in order to determine whether SSARS apply. If, after considering the preponderance of a presentation's attributes, the presentation is deemed to be a financial statement, SSARS apply unless the presentation is modified to conform with the attributes of a trial balance. (The Interpretation notes that a trial balance could have one or two attributes of a financial statement and still be judged to constitute a trial balance.) Those attributes are summarized as follows:

- Financial statements group general ledger accounts to create single line items within the financial statement. Trial balances do not.
- Financial statements include totals and subtotals such as current assets, total assets, total current liabilities, total liabilities, total equity, revenues, operating income, and net income. Trial balances do not.
- Contra accounts, such as an allowance for bad debts, are netted against the related primary accounts in financial statements. In trial balances, they are not.
- Financial statement titles generally reflect financial position, results of operations, or cash flows. Trial balance titles ordinarily include the term *trial balance* or indicate that the presentation is a listing of accounts.
- Financial statements have numerous mathematical relationships. For example, total assets are equal to liabilities plus equity. The only mathematical relationship in trial balances is that total debits equal credits.
- Financial statements present assets and liabilities based on their liquidity and maturity. Trial balances present accounts based on their account number order.
- Financial statements reflect results of operations, and net income is closed to retained earnings. Trial balances do not reflect results of operations, and the retained earnings balance is the balance as of the beginning of the period.

Submission of Financial Statements **Submission of Financial Statements.** *Submission* is defined as presenting to a client or a third party financial statements the accountant has prepared, either manually or by using computer software. (AR 100.04)

Management. *Management* consists of “the person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.” (AR 100.04)

Those Charged with Governance. *Those charged with governance* are “the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity . . . in some entities, governance is a collective responsibility that may be carried out by a board of directors, a committee of the board of directors, a committee of management, partners, equivalent persons, or some combination thereof. Those charged with governance are specifically excluded from management, unless they perform management functions.” (AR 100.04)

Third Party. A *third party* is “all persons, including those charged with governance, except for those members of management.” (AR 100.04)

Generally Accepted Accounting Principles (GAAP). While accountants agree that a body of generally accepted accounting principles (GAAP) exists, determining whether a specific accounting principle is generally accepted can

be difficult since there is no single source for GAAP. The following represent sources of generally accepted accounting principles: (AR 100.106)

- a. Accounting principles promulgated by a body designated by the AICPA Council to establish such principles, pursuant to Rule 203 of the *AICPA Code of Professional Conduct*.
- b. Pronouncements of bodies composed of expert accountants that deliberate accounting issues in public forums for the purpose of establishing accounting principles or describing existing accounting practices that are generally accepted, provided those pronouncements have been exposed for public comment and have been cleared by a body referred to in category (a). (A pronouncement is considered to be *cleared* if a body referred to in category (a) has indicated that it does not object to its issuance.)
- c. Pronouncements of bodies, organized by a body referred to in category (a) and composed of expert accountants, that deliberate accounting issues in public forums for the purpose of interpreting or establishing accounting principles or describing existing accounting practices that are generally accepted, or pronouncements referred to in category (b) that have been cleared by a body referred to in category (a) but have not been exposed for public comment.
- d. Practices or pronouncements that are widely recognized as being generally accepted because they represent prevalent practice in a particular industry or the knowledgeable application to specific circumstances of pronouncements that are generally accepted.

Other Comprehensive Basis of Accounting (OCBOA). An other comprehensive basis of accounting (OCBOA) is a “definite set of criteria, other than GAAP, having substantial support underlying the preparation of financial statements prepared pursuant to that basis.” Examples of an OCBOA include— (AR 100.04)

- A basis of accounting used to comply with the requirements or financial reporting provisions of a governmental regulatory agency.
- A basis of accounting the entity uses or expects to use to file its income tax return for the same period as the financial statements.
- The cash basis of accounting and modifications of the cash basis having substantial support, such as recording depreciation on fixed assets.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

5. SSARS No. 13 applies to which of the following?
 - a. Review of specified elements of a financial statement.
 - b. Engagement to render an opinion on accounts in a financial statement.
 - c. Compilation of items of a financial statement.
 - d. Agreed-upon procedures of elements of a financial statement.
6. Paul is submitting financial statements to the court in conjunction with a legal case against the company. In which of the following situations would SSARS apply to the financial statements?
 - a. Paul was engaged by the attorney of the company to compile the financial statements for the court case.
 - b. Paul has been hired by the company to be an expert witness on the financial statements that he submitted to the courts.
 - c. The financial statements that Paul submitted are being analyzed and challenged by each party of the litigation claim.
 - d. Paul was engaged by the owners of the company to complete a full audit and produce financial statements that meet all requirements.
7. SSARS would apply to which of the following services?
 - a. An engagement for the accountant to prepare a forecast.
 - b. An engagement to compile elements of a financial statement.
 - c. An engagement for the accountant to prepare a business valuation for a tax return.
8. Which of the following is an attribute of a review, as defined by the SSARS?
 - a. The service can cover more than just financial statements.
 - b. A service which provides a limited assurance that no material modifications are required to be in conformity with GAAP.
 - c. A service that presents a form of the financial statements that is a representation of management, but does not provide assurance on them.

9. SSARS apply only to nonissuer's as defined in AR 100.04. Which of the following is an issuer?
- a. An individual who is the CEO of a publicly traded company.
 - b. A consolidated or combined group of corporations or affiliated entities.
 - c. A corporate joint venture controlled by a firm on a regional over-the counter market.
 - d. A nonprofit organization which invests in stocks of publicly traded companies.
10. Generally, SSARS apply only to a nonpublic entity's financial statements **except** for which of the following?
- a. SSARS No. 6.
 - b. SSARS No. 7.
 - c. SSARS No. 10.
 - d. SSARS No. 14.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

5. SSARS No. 13 applies to which of the following? **(Page 10)**

- a. Review of specified elements of a financial statement. [This answer is incorrect. SSAE No. 10, AT 101 provides guidance for this service.]
- b. Engagements to render an opinion on accounts in a financial statement. [This answer is incorrect. SAS No. 62 provides guidance for this service.]
- c. **Compilation of items of a financial statement. [This answer is correct. SSARS No. 13, *Compilation of Specified Elements, Accounts, or Items of a Financial Statement*, provides guidance to apply to compilations of specified elements, accounts, or items of a financial statement.]**
- d. Agreed-upon procedures of elements of a financial statement. [This answer is incorrect. SSAE No. 10, AT 201 provides guidance for this service.]

6. Paul is submitting financial statements to the court in conjunction with a legal case against the company. In which of the following situations would SSARS apply to the financial statements? **(Page 11)**

- a. Paul was engaged by the attorney of the company to compile the financial statements for the court case. [This answer is incorrect. If the accountant is engaged by the attorney to do work that will be protected by the attorney's work—product privilege and such work is not intended to be used for other purposes, then the financial statements are not subject to the SSARS reporting requirements, according to AR 9100.77.]
- b. Paul has been hired by the company to be an expert witness on the financial statements that he submitted to the courts. [This answer is incorrect. As stated in 9100.77 of the SSARS, if the accountant's service consists of being an expert witness, then the financial statements that the accountant submitted to the court are not subject to the SSARS reporting requirements.]
- c. The financial statements that Paul submitted are being analyzed and challenged by each party of the litigation claim. [This answer is incorrect. If the accountant's work under the rules of the proceeding is subject to detailed analysis and challenged by each party to the dispute, then the financial statements are not subject to the SSARS reporting requirements. (AR 9100.77)]
- d. **Paul was engaged by the owners of the company to complete a full audit and produce financial statements that meet all requirements. [This answer is correct. If the accounting is specifically engaged to submit financial statements produced in accordance with SSARS and the financial statements are the representation of management, then the reporting requirements of SSARS do apply to the financial statements.]**

7. SSARS would apply to which of the following services? **(Page 12)**

- a. An engagement for the accountant to prepare a forecast. [This answer is incorrect. Forecasts are not financial statements for purposes of SSARS.]
- b. **An engagement to compile elements of a financial statement. [This answer is correct. SSARS No. 13, *Compilation of Specified Elements, Accounts, or Items of a Financial Statement*, expanded SSARS to cover services when an accountant is engaged to compile, or issues a compilation report on specified elements, or items of a financial statement.]**
- c. An engagement for the accountant to prepare a business valuation for a tax return. [This answer is incorrect. SSARS do not apply since financial presentations included in tax returns are not considered financial statements as stated in AR 100.04.]

8. Which of the following is an attribute of a review, as defined by the SSARS? **(Page 12)**

- a. The service can cover more than just financial statements. [This answer is incorrect. The service of a compilation, not a review, can cover more than just financial statements, as defined by SSARS Nos. 13 and 14. These SSARS expanded the scope of a compilation and differ slightly, discussing the presentation of financial information, not the presentation of information in the form of financial statements. (AR 110.02 and AR 120.02)]
- b. A service which provides a limited assurance that no material modifications are required to be in conformity with GAAP. [This answer is correct. As defined by the SSARS, a review of financial statements is a “a service, the objective of which is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with GAAP.” (AR 100.04)]**
- c. A service that presents a form of the financial statements that is a representation of management, but does not provide assurance on them. [This answer is incorrect. A service that provides a form of the financial statements that is a representation of management without undertaking to express any assurances is a compilation, as defined by the SSARS, not a review. (AR 100.04)]

9. SSARS apply only to nonissuers as defined in AR 100.04. Which of the following is a issuer? **(Page 12)**

- a. An individual who is the CEO of a publicly traded company. [This answer is incorrect. An individual may be a nonissuer and therefore SSARS would apply.]
- b. A consolidated or combined group of corporations or affiliated entities. [This answer is incorrect. A consolidated or combined group of corporations or affiliated entities may be a nonissuer and SSARS would apply.]
- c. A corporate joint venture controlled by a firm on a regional over-the-counter market. [This answer is correct. A corporate joint venture owned by a firm with traded securities would be a issuer and SSARS would not apply.]**
- d. A nonprofit organization which invests in stocks of publicly traded companies. [This answer is incorrect. A nonprofit organization may be a nonissuer and therefore SSARS would apply.]

10. Generally, SSARS apply only to a nonpublic entity's financial statements **except** for which of the following? **(Page 13)**

- a. SSARS No. 6. [This answer is incorrect. SSARS No. 6 (AR 600) applies to personal financial statements included in written personal financial plans.]
- b. SSARS No. 7. [This answer is incorrect. SSARS No. 7 (incorporated AR 100–400) updates previous guidance on relating to compilation and review financial statements.]
- c. SSARS No. 10. [This answer is incorrect. SSARS No. 10 (incorporated AR 100) relates specifically to review engagements.]
- d. SSARS No. 14. [This answer is correct. SSARS No. 14 gives guidance related to pro forma financial information.]**

EXAMINATION FOR CPE CREDIT**Lesson 1 (GASTG091)**

Determine the best answer for each question below. Then mark your answer choice on the **Examination for CPE Credit Answer Sheet** located in the back of this workbook or by logging onto the Online Grading System.

1. Accountants need to justify **not** applying which of the following publications?
 - a. AICPA Letter compilation and review articles.
 - b. AICPA Statements of Position that relate to compilation and reviews.
 - c. AICPA annual Compilation and Review Alerts.
 - d. State CPA materials for compilation and reviews.
2. Which of the following statements regarding AICPA peer review requirements is correct?
 - a. Management-use-only reports are excluded from peer review.
 - b. Management-use-only reports must be peer reviewed.
 - c. Management-use-only reports are subject to peer review if the accountant also performs SSARS reviews.
 - d. The accountant decides if management-use-only reports are peer reviewed.
3. If an accountant performs controllership duties for an entity while in the practice of public accounting which of the following statements is correct?
 - a. The accountant must meet the standards of SSARS No. 1.
 - b. The accountant is independent as long as he or she is not an employee or officer in the company.
 - c. The accountant is prohibited from having custody of a client's assets.
 - d. The accountant is prohibited from issuing a compilation report under SSARS No. 1.
4. If an accountant is not independent in regards to a company and also in the practice of public accounting, the accountant is prohibited from:
 - a. Stating the relationship in the financial statements' report.
 - b. Issuing a compilation report under SSARS No 1.
 - c. Issuing a compilation report under SSARS No 8.
 - d. Issuing a review report under SSARS No. 10.
5. An accountant, not in public practice, is a controller of a company and prepares a compilation report. In this situation which of the following statements is correct?
 - a. The report should be issued in accordance with SSARS No.1b.
 - b. The report should be issued in accordance with SSARS No. 8c.
 - c. The report should be issued in accordance with SSARS No. 9d.
 - d. A SSARS report cannot be issued by an accountant not in public practice.

6. Which of the following would **not** be a specified element, account or item for which an accountant can issue a compilation report?
- a. Officer profit sharing plan distribution.
 - b. Tax consequences of a future transaction.
 - c. Schedule of long-term lease maturities.
 - d. Aged accounts receivables.
7. In which of the situations below, do litigation services apply SSARS?
- a. The accountant is retained by an attorney and protected by the attorney's work-product privilege.
 - b. The accountant is acting on his/her behalf.
 - c. The accountant's financial statements will not be analyzed.
 - d. The accountant's financial statements are subject to challenge.
8. SSARS would apply to which of the following services?
- a. Tax return financial presentations.
 - b. Nonpublic entities with information filed with the SEC.
 - c. Compiled draft financial statements, not labeled as such.
 - d. Written advice about accounting principle application.
9. Which of the following is **not** a financial statement?
- a. Trial balance.
 - b. Statement of operations by product lines.
 - c. Statement of activities.
 - d. Statement of assets and liabilities without owners' equity.
10. SSARS are applied to compilation and review financial statements. Which of the following is **not** an attribute of a financial statement?
- a. Mathematically only total credits equal debits.
 - b. Contra accounts are netted.
 - c. Year-end retained earnings include net income.
 - d. Results of operations are reflected.

Lesson 2: Performing Compilation and Review Engagements

INTRODUCTION

Lesson 2 discusses engagement acceptance, compilation procedures, review procedures, other compilation and review performance standards, and compilation of management-use-only financial statements.

Learning Objectives:

Completion of this lesson will enable you to:

- Identify the requirements for accepting accounting and review services engagements.
- Recognize required compilation and review procedures.
- Identify considerations in a change in the level of engagement and subsequent discovery of facts existing at the date of the report.
- Differentiate on compilation of management-use-only financial statements and prepare required engagement and representation letters.

ENGAGEMENT ACCEPTANCE

Independence

Independence is not required for SSARS compilation engagements. As discussed later in this course, the engagement letter for a compilation of management-use-only financial statements should include a statement of the accountant's lack of independence, if that is the case. When an accountant who is not independent issues a compilation report, the report should disclose a lack of independence. Independence is required for review engagements.

Communication between a Successor and a Predecessor Accountant

An accountant who has accepted, or is contemplating proposing for or accepting, a SSARS compilation or review engagement might decide to communicate with a predecessor accountant. SSARS do not require such a communication, but give guidance to the successor and predecessor accountant should the successor decide to communicate. (AR 400.03) *Successor* and *predecessor* accountant are defined as follows: (AR 400.02)

- *Successor accountant*—an accountant who has been invited to make a proposal for an engagement to compile or review financial statements and is considering accepting the engagement or an accountant who has accepted such an engagement.
- *Predecessor accountant*—an accountant who (a) has reported on the most recent compiled or reviewed financial statements or was engaged to perform but did not complete a compilation or review of the financial statements, and (b) has resigned, declined to stand for reappointment, or been notified that his or her services have been or may be terminated.

Requirements of the Successor. The following requirements apply to the successor accountant who decides to communicate with the predecessor:

- a. *Obtain client permission and authorization.* The successor should ask the client to do the following: (AR 400.04)
 - (1) Permit inquiries of the predecessor.
 - (2) Authorize the predecessor to respond fully to the inquiries.

- (3) Authorize the predecessor to give the successor access to the predecessor's workpapers, should the successor decide, after inquiring about the nature of the predecessor workpapers, that access would be helpful. (AR 400.08)
- b. *Consider client's refusal.* The successor should inquire about and consider the reasons for a client's refusal to permit the predecessor to reply to the inquiries or for placing a limitation on the response and implications of the refusal with respect to engagement acceptance. (AR 400.04)
- c. *Contents of communication.* The communication, which may be oral or in writing, would include inquiries concerning the following: (AR 400.05)
 - (1) information relevant to management's (the owner's) integrity,
 - (2) disagreements with management (the owners) about accounting principles or the need to perform certain procedures or similarly significant matters,
 - (3) management's (the owner's) cooperation in providing any necessary additional or revised information,
 - (4) the predecessor's knowledge of any fraud or illegal acts perpetrated within the client, and
 - (5) the predecessor's understanding of the reasons for the change in accountants.
- d. *Consider predecessor refusal.* The successor should consider the reasons for a predecessor's refusal to respond fully to the inquiries listed in item c and implications of the refusal with respect to engagement acceptance. (AR 400.06)

Requirements of the Predecessor. The following requirements apply to the predecessor accountant:

- *Respond to inquiries.* The predecessor should respond to inquiries promptly and fully based on his or her knowledge of the facts. If, due to unusual circumstances (such as impending litigation, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances; but not unpaid fees), the predecessor decides not to respond fully to the inquiries, the predecessor should indicate that the response is limited. (AR 400.06)
- *Access to workpapers.* If requested to give access to workpapers, the predecessor ordinarily should give access to workpapers relating to matters of continuing accounting significance and relating to contingencies. The predecessor and successor should determine which workpapers will be made available for review and which may be copied. The predecessor may, for valid business reasons such as unpaid fees, decide to not grant access to the workpapers. (AR 400.08)

The predecessor may decide to reach an understanding with the successor about the use of the workpapers and may wish to obtain a written communication from the successor about their use before permitting access to them. (AR 400.08) Exhibit 2-1 presents an illustration of such a communication from AR 400.12. Accountants should keep in mind that the letter is not required by SSARS.

Exhibit 2-1

Illustrative Successor Accountant Acknowledgment Letter

[Date]

[Successor Accountant]

[Address]

We have previously [reviewed OR compiled], in accordance with Statements on Standards for Accounting and Review Services the December 31, 20X1, financial statements of ABC Enterprises (ABC). In connection with your

[review OR compilation] of ABC's 20X2 financial statements, you have requested access to our working papers prepared in connection with that engagement. ABC has authorized our firm to allow you to review those working papers.

Our [review OR compilation], and the working papers prepared in connection therewith, of ABC's financial statements were not planned or conducted in contemplation of your [review OR compilation]. Therefore, items of possible interest to you may not have been specifically addressed. Our use of professional judgment for the purpose of this engagement means that matters may have existed that would have been assessed differently by you. We make no representation about the sufficiency or appropriateness of the information in our working papers for your purposes.

We understand that the purpose of your review is to obtain information about ABC and our 20X1 [review OR compilation] of the financial statements of ABC. For that purpose only, we will provide you access to our working papers that relate to that objective.

Upon request, we will provide copies of those working papers that provide factual information about ABC. You agree to subject any such copies or information otherwise derived from our working papers to your normal policy for retention of working papers and protection of confidential client information. Furthermore, in the event of a third-party request for access to your working papers prepared in connection with your [reviews OR compilations] of ABC, you agree to obtain our permission before voluntarily allowing any such access to our working papers or information otherwise derived from our working papers, and to obtain on our behalf any releases that you obtain from such third party. You agree to advise us promptly and provide us a copy of any subpoena, summons, or other court order for access to your working papers that include copies of our working papers or information otherwise derived therefrom.

Please confirm your agreement with the foregoing by signing and dating a copy of this letter and returning it to us.

Very truly yours,

[Predecessor Accountant]

By: _____

Accepted:

[Successor Accountant]

By: _____ Date: _____

Even with the client's consent, access to the predecessor accountant's working papers may still be limited. Experience has shown that the predecessor accountant may be willing to grant broader access if given additional assurance concerning the use of the working papers. Accordingly, the successor accountant might consider agreeing to the following limitations on the review of the predecessor accountant's working papers in order to obtain broader access:

- The successor accountant will not comment, orally or in writing, to anyone as a result of the review about whether the predecessor accountant's engagement was performed in accordance with Statements on Standards for Accounting and Review Services.
- The successor accountant will not provide expert testimony or litigation services or otherwise accept an engagement to comment on issues relating to the quality of the predecessor accountant's engagement.

The following paragraph illustrates the above:

Because your review of our working papers is undertaken solely for the purpose described above and may not entail a review of all our working papers, you agree that (1) the information obtained from the review will not be used by you for any other purpose, (2) you will not comment, orally or in writing, to anyone as a result of that review about whether our engagement was performed in

accordance with Statements on Standards for Accounting and Review Services, (3) you will not provide expert testimony or litigation services or otherwise accept an engagement to comment on issues relating to the quality of our engagement.

* * *

Understanding with the Client

Before performing a SSARS compilation or review, the accountant should establish an understanding with the entity, preferably in writing, about the services to be performed. An engagement letter is required for a compilation of management-use-only financial statements. The understanding should include the following matters: (AR 100.05)

- A description of the nature and limitations of the services to be performed and a description of the report, if a report is to be issued.
- The engagement cannot be relied on to disclose errors, fraud, or illegal acts.
- The accountant will inform the appropriate level of management of any material errors or of any evidence or other information that comes to the accountant's attention during the performance of compilation or review procedures, that fraud or an illegal act may have occurred.

Accountants should be careful about including in engagement letters clauses that limit liability or provide indemnification. The AICPA Professional Ethics Executive Committee has issued an interpretation under Rule 501 reminding members that some regulators (including the SEC) prohibit the use of indemnification and limitation of liability provisions, and that entering into such an agreement with a client who is subject to the regulators' requirements would be considered an act discreditable to the profession.

Illustrative Compilation Engagement Letters. Illustrative compilation engagement letters have been provided as follows:

- Exhibit 2-2: Standard compilation letter.
- Exhibit 2-3: Compilation of specified elements, accounts, or items.
- Exhibit 2-4: Compilation of pro forma financial information.
- Exhibit 2-8: Management-use-only financial statements.

Exhibit 2-2

Illustrative Standard Compilation Engagement Letter

[Appropriate Salutation]

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

We will perform the following services:

1. We will compile, from information you provide, the annual and interim balance sheets and related statements of income, retained earnings, and cash flows of XYZ Company for the year 20XX.

We will compile the financial statements and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to present in the form of financial statements, information

that is the representation of management (owners) without undertaking to express any assurance on the financial statements.

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

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our compilation procedures, that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred unless they are clearly inconsequential. We have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement.

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

2. We will also . . . (discussion of other services).

You are responsible for making all management decisions and performing all management functions, and for designating an individual with suitable skill, knowledge, and/or experience, preferably within senior management, to oversee any bookkeeping services, tax services, or other services we provide. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services. You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

[Name of Engagement Partner] is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fees for these services . . .

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.^a

Sincerely yours,

Signature of Accountant

Acknowledged:
XYZ Company

President

Date

Note:

- ^a Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the sentence beginning "If you agree with . . ." and the spaces for the acknowledgment.

* * *

Exhibit 2-3**Illustrative Engagement Letter
Compilation of Specified Elements, Accounts, Or Items of a Financial Statement**

[Appropriate Salutation]

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

We will perform the following services:

1. We will compile, from information you provide, the schedule of accounts receivable of XYZ Company as of December 31, 20XX.

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

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

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

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

2. We will also . . . (discussion of other services)

You are responsible for making all management decisions and performing all management functions, and for designating an individual with suitable skill, knowledge, and/or experience, preferably within senior management, to oversee any bookkeeping services, tax services, or other services we provide. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services. You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

[Name of Engagement Partner] is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fees for these services . . .

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

Signature of Accountant

Acknowledged:
XYZ Company

President

Date

* * *

Exhibit 2-4

Illustrative Engagement Letter Compilation of Pro Forma Financial Information

[Appropriate Salutation]

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

We will perform the following services:

1. We will compile, from information you provide, the pro forma financial information as of and for the year ended December 31, 20XX, reflecting the business combination of the Company and ABC Company.

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

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

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

2. We will also . . . (discussion of other services)

You are responsible for making all management decisions and performing all management functions, and for designating an individual with suitable skill, knowledge, and/or experience, preferably within senior management, to oversee any bookkeeping services, tax services, or other services we provide. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services. You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

The objective of pro forma financial information is to show what the significant effects on historical financial information might have been had a transaction or event occurred at an earlier date. However, pro forma financial

information is not necessarily indicative of the results that would have been attained had the transaction or event actually occurred earlier.

Management is responsible for the pro forma financial information and for the assumptions used in the presentation. In order for us to complete the engagement, management must provide assumptions that are appropriate for the presentation of the pro forma financial information. If the assumptions provided are inappropriate and have not been revised to our satisfaction, we will be unable to complete the engagement, and, accordingly, we will not submit the pro forma financial information or issue a report on it.

[Name of Engagement Partner] is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fees for these services . . .

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

Signature of Accountant

Acknowledged:
XYZ Company

President

Date

* * *

Illustrative Review Engagement Letter. Exhibit 2-5 presents an illustrative review engagement letter.

Exhibit 2-5

Illustrative Review Engagement Letter

[Appropriate Salutation]

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

We will perform the following services:

1. We will review the balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a review engagement is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in accordance with generally accepted accounting principles.

A review differs significantly from an audit of financial statements, in which the auditor provides reasonable assurance that the financial statements, taken as a whole, are free of material misstatement. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting

records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); and other procedures ordinarily performed in an audit. Accordingly, a review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit. Therefore, a review provides only limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform you of any material errors and any evidence or information that comes to our attention during the performance of our review procedures, that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our review procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential. We have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement.

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

2. We will also . . . (discussion of other services).

You are responsible for making all management decisions and performing all management functions, and for designating an individual with suitable skill, knowledge, and/or experience, preferably within senior management, to oversee any bookkeeping services, tax services, or other services we provide. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services. You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

As part of our review procedures, we will require certain written representations from management about the financial statements and matters related thereto.

[Name of Engagement Partner] is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fees for these services . . .

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Signature of Accountant

Acknowledged:
XYZ Company

President

Date

* * *

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

11. Which of the following statements regarding a successor accountant's communication with a predecessor accountant is correct?
 - a. A successor is precluded from making inquiries before making a proposal for an engagement.
 - b. Communication between successor and predecessor accountants is required to be documented in writing.
 - c. If a predecessor has unpaid fees from a former client, the predecessor may deny the successor access to the workpapers.
 - d. Predecessors are required to make their workpapers available to all successor accountants who have proposed for an engagement.
12. Certain requirements apply to a successor accountant when communicating with a predecessor. Which of the following is **not** one of those requirements?
 - a. If a predecessor does not respond to a successor's inquiry, the successor needs to determine the implications of the refusal.
 - b. The client limits the predecessor's reply to inquiries to the successor accountant.
 - c. SSARS requires an illustrative successor accountant acknowledgement letter.
13. Which of the following statements regarding a predecessor auditor is **incorrect**?
 - a. A predecessor may limit a response to a successor auditor because the former client threatened litigation.
 - b. A predecessor may obtain assurance in writing that the successor will not comment on issues relating to the predecessor's engagement.
 - c. A predecessor may limit a response to a successor auditor because the former client has unpaid fees.
14. Which of the following should **not** be an element of a SSARS compilation or review engagement letter?
 - a. An indemnification and limitation of liability clause.
 - b. A description of the accountants services limitations.
 - c. Disclosure of illegal acts will be made to management.
 - d. The accountants' procedures may not discover fraud.
15. A standard compilation engagement letter would state the accountant is responsible for which of the following?
 - a. Inquiry questions of entity employees.
 - b. Analytical procedures on the financial statements.
 - c. Notification of internal control concerns.
 - d. Compiling interim balance sheets.

16. An engagement letter for compilation of pro forma financial information would state the accountant is responsible for which of the following?
- a. Reporting immaterial illegal acts.
 - b. Assumptions used in the pro forma financial statements.
 - c. Presenting the proposed transaction in an income statement.
 - d. Results are indicative of the transaction occurring previously.
17. Which of the following will an accountant guarantee in the engagement letter of a review?
- a. Informing management of all illegal acts, including inconsequential, that might have occurred.
 - b. The auditor will recognize and convey to the client any deficiencies in the client's internal control procedures.
 - c. The auditor will provide limited assurance that the financial statements are in accordance with GAAP.
 - d. The auditor will provide a test of accounting records.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

11. Which of the following statements about a successor accountant's communication with a predecessor accountant is correct? **(Page 24)**
- a. A successor is precluded from making inquiries before making a proposal for an engagement. [This answer is incorrect. The successor is allowed to make inquiries before making a proposal for an engagement as stated in AR 400.03.]
 - b. Communication between successor and predecessor accountants is required to be documented in writing. [This answer is incorrect. The communication may be oral or in writing per AR 400.05.]
 - c. **If a predecessor has unpaid fees from a former client, the predecessor may deny the successor access to the workpapers. [This answer is correct. The predecessor may, for valid business reasons such as unpaid fees, decide not to grant access to the workpapers to the successor accountant (AR 400.08).]**
 - d. Predecessors are required to make their workpapers available to all successor accountants who have proposed for an engagement. [This answer is incorrect. Predecessors are not expected to make themselves or their workpapers available to more than one accountant who may be considering accepting the engagement until the client designates one of them as the successor (AR 400.08).]
12. Certain requirements apply to a successor accountant when communicating with a predecessor. Which of the following is **not** one of those requirements? **(Page 24)**
- a. If a predecessor does not respond to a successor's inquiry, the successor needs to determine the implications of the refusal. [This answer is incorrect. According to AR 400.6, the successor should consider the reasons for a predecessor's refusal to respond fully to the inquiries and implications of the refusal with respect to the engagement acceptance.]
 - b. The client limits the predecessor's reply to inquiries to the successor accountant. [This answer is incorrect. As stated in AR 400.04, the successor should inquire about and consider the reasons for a client's refusal to permit the predecessor to reply to the inquiries or for placing a limitation on the response and implications of the refusal with respect to the engagement acceptance.]
 - c. **SSARS requires an illustrative successor accountant acknowledgement letter. [This answer is correct. SSARS provides an illustrative successor accountant acknowledgement letter, but the letter is not required by SSARS (AR 400.12).]**
13. Which of the following statements regarding a predecessor auditor is **incorrect**? **(Page 24)**
- a. A predecessor may limit a response to a successor auditor because the former client threatened litigation. [This answer is incorrect. If due to unusual circumstances, such as impending litigation, the predecessor decides not to respond fully to the inquiries, the predecessor should indicate that the response is limited (AR 400.06).]
 - b. A predecessor may obtain assurance in writing about the successor's use of workpapers. [This answer is incorrect. A predecessor may obtain assurance about the use of workpapers by the successor before permitting access to them (AR 400.12).]
 - c. **A predecessor may limit a response to a successor auditor because the former client has unpaid fees. [This answer is correct. The predecessor should respond to inquiries promptly and fully based on his or her knowledge of the facts, even if the client has unpaid fees (AR 400.06).]**

14. Which of the following should **not** be an element of a SSARS compilation or review engagement letter? **(Page 26)**
- a. **An indemnification and limitation of liability clause. [This answer is correct. Accountants should not include clauses indemnifying and limiting the liability to clients. The AICPA Professional Ethics Executive Committee has issued an interpretation under Rule 501 reminding member that some regulators (including the SEC) prohibit the use of indemnification and limitation of liability provisions, and that entering into such an agreement with a client who is subject to the regulators' requirements would be considered an act discreditable to the profession.]**
 - b. A description of the accountants services limitations. [This answer is incorrect. The engagement letter should include a description of the nature and limitations of the services to be performed. (AR 100.05)]
 - c. Disclosure of illegal acts will be made to management. [This answer is incorrect. The engagement letter should include that the accountant will inform the appropriate level of management of any evidence that illegal acts have occurred per AR 100.05.]
 - d. The accountants' procedures may not discover fraud. [This answer is incorrect. The engagement letter should state the engagement cannot be relied on to disclose fraud as stated in AR 100.05.]
15. A standard compilation engagement letter would state the accountant is responsible for which of the following? **(Page 26)**
- a. Inquiry questions of entity employees. [This answer is incorrect. Accountants are not required to make inquiries of management in compilations since compilations do not require this level of detail.]
 - b. Analytical procedures on the financial statements. [This answer is incorrect. Compilation engagements do not require analytical procedures on the financial statements. This would be done in a review or audit.]
 - c. Notification of internal control concerns. [This answer is incorrect. Accountants do not evaluate the adequacy of internal controls in compilation engagements. This is done in an audit.]
 - d. **Creating interim balance sheets. [This answer is correct. A compilation engagement letter states that the auditor will compile the financial statement and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to present in the form of financial statements, information that is the representation of management without undertaking to express any assurance on the financial statements.]**
16. An engagement letter for compilation of pro forma financial information would state the accountant is responsible for which of the following? **(Page 29)**
- a. Reporting immaterial illegal acts. [This answer is incorrect. The engagement letter would state the accountant would report any evidence regarding illegal acts that may have occurred unless they are clearly inconsequential. Immaterial is different from inconsequential.]
 - b. Assumptions used in the pro forma financial statements. [This answer is incorrect. The engagement letter would state management's responsibility, not the accountant's, for the assumptions used in the pro form financial statements.]
 - c. **Presenting the proposed transaction in an income statement. [This answer is correct. The engagement letter would give the accountant the responsibility for compiling the financial statements based on information provided by management.]**
 - d. Results are indicative of the transaction occurring previously. [This answer is incorrect. The engagement letter should state the pro forma financial information is not necessarily indicative of the results that would have been attained had the transaction actually occurred earlier.]

17. Which of the following will an accountant guarantee in the engagement letter of a review? **(Page 30)**

- a. Informing management of all illegal acts, including inconsequential, that might have occurred. [This answer is incorrect. In the engagement letter of a review, the accountant would report to the client any illegal acts that may have occurred and discovered as part of the review process, unless they are clearly inconsequential.]
- b. The auditor will recognize and convey to the client any deficiencies in the client's internal control procedures. [This answer is incorrect. A review does not contemplate obtaining an understanding of the entity's internal control and this would be communicated in the engagement letter of the review by the accountant. A review does not include that breadth of procedures to gain knowledge on the internal control procedures.]
- c. **The auditor will provide limited assurance that the financial statements are in accordance with GAAP. [This answer is correct. A review differs significantly from an audit of financial statements, which provides the client with reasonable assurance that the financial statements, taken as a whole, are free of material misstatement. The auditor should state in the engagement letter that a review will provide only limited assurance that there are no material modification that should be made to the financial statements in order for the statement to be in conformity with generally accepted accounting principles as stated in SSARS No. 12.]**
- d. The auditor will provide a test of accounting records. [This answer is incorrect. In the engagement letter, the auditor will state that the review will not perform a test of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation or examination of source documents. This is a procedure normally performed in an audit and is not done in a review.]

COMPILATION PROCEDURES

Planning and Supervision

SSARS do not give specific guidance on planning and supervision in a SSARS compilation engagement. An Interpretation at AR 9100.16–.17, *Planning and Supervision*, states only that an accountant *may*, but is not required to, consider AU 311 or sources such as textbooks and articles for additional information on planning and supervision.

Procedures

A SSARS compilation is defined in AR 100.04 as “a service, the objective of which is to present in the form of financial statements information that is the representation of management (owners) without undertaking to express any assurance” on them. SSARS No. 13, which applies to compilation of specified elements, accounts, or items of a financial statement, and SSARS No. 14, which applies to compilation of pro forma financial information, define these services as “presenting financial information that is the representation of management (owners) without undertaking to express any assurance on that information.” (AR 110.02 and AR 120.02)

In a compilation, the accountant is not required to make inquiries or perform procedures to verify, corroborate, or review information supplied by an entity. However, the accountant is required to do the following:

- a. *Possess knowledge about the industry.* The accountant should possess sufficient knowledge of the accounting principles and practices of the industry in which the entity operates to be able to compile statements in a form appropriate for an entity in that industry. *Industry* includes governmental and nonprofit activities. The accountant who does not possess sufficient knowledge when accepting an engagement may obtain the knowledge by means such as consulting AICPA guides, industry publications, financial statements of other entities in the industry, text books, periodicals, or knowledgeable individuals. (AR 100.08)
- b. *Possess knowledge about the entity.* The accountant should possess a general understanding of the following matters: (AR 100.09)
 - (1) the nature of the entity's business transactions,
 - (2) the form of its accounting records,
 - (3) the stated qualifications of its accounting personnel,
 - (4) the accounting basis on which the financial statements are to be presented, and
 - (5) the form and content of the financial statements.

This knowledge ordinarily is obtained from experience with the entity or inquiry of the entity's personnel.

- c. *Consider the need for other services.* Based on the knowledge about the matters listed in item b, the accountant should consider whether it will be necessary to perform other accounting services, such as assisting in adjusting the books of account, when compiling the financial statements. (AR 100.09)
- d. *Obtain revised information if necessary.* The accountant may become aware that information supplied by the entity is incorrect, incomplete, or otherwise unsatisfactory. If the accountant becomes aware of any evidence or information regarding fraud or an illegal act that may have occurred, the accountant should request that management consider the effect on the financial statements. Also, the accountant should consider the effect on the compilation report. If the accountant believes that the financial statements are materially misstated, he or she should obtain additional or revised information or withdraw from the compilation engagement if the client refuses to provide the information. (AR 100.10)

- e. *Communicate to management.* The accountant should communicate to the appropriate level of management about any fraud or illegal acts (other than those that are clearly inconsequential) that may have occurred. When potential fraud or illegal acts involve senior management, the accountant should report the matter to an individual or group at a higher level within the entity, such as the owner/manager or the board of directors. When an owner of the business is involved in potential fraud or illegal acts, the accountant should consider resigning from the engagement. (AR 100.84)
- f. *Read the financial statements.* The accountant should read the financial statements and consider whether they appear to be appropriate in form and free from obvious material errors, that is, free from arithmetical, clerical, or other mistakes in the compilation, mistakes in the application of accounting principles, or inadequate disclosure. (AR 100.11)
- g. *Report.* When the accountant is engaged to report on compiled financial statements or submits financial statements that are reasonably expected to be used by a third party, the accountant should issue the appropriate report.

An accountant is neither required to, nor prohibited from, performing additional procedures customarily performed in an audit, such as confirming receivables or observing inventories. For instance, the client might request such procedures. In such circumstances, the following considerations apply: (AR 9100.46–.49)

- Performing such procedures does not obligate the accountant to change the engagement to an audit.
- When such additional procedures are planned as part of the engagement, it may be more important for the understanding with the client about the services to be performed to be in writing, as discussed previously.
- Any confirmations or communications related to the additional procedures should avoid the word *audit*.

Compilation of Specified Elements, Accounts, or Items

SSARS No. 13 (AR 110) applies when an accountant is engaged to compile or issues a compilation report on specified elements, accounts, or items of a financial statement, such as schedules of accounts receivable, rents, or profit participation. SSARS No. 13 places the following requirements on accountants who are engaged to perform this type of service:

- a. The accountant should consider the intended use of the presentation and whether a user might inappropriately infer an unintended level of assurance. (AR 110.04)
- b. The accountant should establish an understanding with the client that includes— (AR 110.06)
 - (1) A discussion of the nature and limitations of the accountant's services;
 - (2) A description of the report the accountant expects to issue;
 - (3) A statement that the engagement cannot be relied upon to disclose errors, fraud, or illegal acts; and
 - (4) A statement that the accountant will inform the appropriate level of management of any fraud or material errors that come to his or her attention and any illegal acts that come to his or her attention, unless they are clearly inconsequential.

(Exhibit 2-3 provides an illustrative engagement letter that can be used to document the understanding with the client when the accountant is engaged to compile, or otherwise issues a compilation report on, one or more specified elements, accounts, or items of a financial statement.)
- c. If the accountant becomes aware of any fraud or illegal acts that may have occurred, he or she should bring it to the attention of the appropriate level of management. (AR 110.07)

- d. The accountant should read the specified elements, accounts, or items and consider whether the information appears to be appropriate in form and free of obvious material errors. (AR 100.11)
- e. The accountant is required to issue a report on the specified elements, accounts, or items. (AR 110.01)

Compilation of Pro Forma Financial Information

SSARS No. 14 (AR 120) applies when an accountant is engaged to compile or issues a compilation report on pro forma financial information. Pro forma financial information shows how a completed or proposed event or transaction might have affected historical financial information. SSARS No. 14 places the following requirements on accountants who are engaged to perform this type of service:

- a. The accountant should consider the intended use of the presentation and whether a user might inappropriately infer an unintended level of assurance. (AR 120.06)
- b. The accountant should establish an understanding with the entity. (AR 120.09) (See the above discussion for SSARS No. 13 about what should be included. See also Exhibit 2-4 for an illustrative engagement letter that can be used to document the understanding with the client when the accountant is engaged to compile, or otherwise issues a compilation report on, pro forma financial information.)
- c. If the accountant becomes aware of any fraud or illegal acts that may have occurred, he or she should bring it to the attention of the appropriate level of management. (AR 120.10)
- d. The accountant should read the pro forma financial information and consider whether it appears to be appropriate in form and free of obvious material errors. (AR 120.12)
- e. Unless the summary of significant assumptions is omitted, the accountant is required to issue a report on the pro forma financial information. If the summary of significant assumptions is not presented, the accountant is precluded from issuing a report. (AR 120.01 and 120.12)

REVIEW PROCEDURES

Planning and Supervision

SSARS do not give specific guidance on planning and supervision in a SSARS review engagement. An Interpretation at AR 9100.16–.17, *Planning and Supervision*, states only that an accountant *may*, but is not required to, consider AU 311 or sources such as textbooks and articles for additional information on planning and supervision.

Procedures

A SSARS review engagement is defined in AR 100.04 as “a service, the objective of which is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with GAAP.”

The accountant is required to do the following in a review engagement:

- a. *Possess knowledge about the industry.* The accountant should possess sufficient knowledge of the accounting principles and practices of the industry in which the entity operates and its business such that performing inquiry and analytical procedures will provide a reasonable basis for expressing limited assurance that no material modifications are required for the financial statements to conform to GAAP or OCBOA. (AR 100.33) *Business* includes nonprofit entities. The accountant who does not possess sufficient knowledge when accepting an engagement may obtain the knowledge by means such as consulting AICPA guides, industry publications, financial statements of other entities in the industry, text books, periodicals, or knowledgeable individuals. (AR 100.34)
- b. *Possess knowledge about the entity.* The accountant should possess a general understanding of the nature of the following matters: (AR 100.35)
 - (1) the entity's organization and operating characteristics,

- (2) the entity's assets, liabilities, revenues, and expenses,
- (3) the entity's production, distribution, and compensation methods,
- (4) the types of products and services,
- (5) the entity's operating locations, and
- (6) material transactions with related parties.

This knowledge ordinarily is obtained from experience with the entity or its industry and inquiry of the entity's personnel.

c. *Perform analytical procedures.* The accountant must perform analytical procedures to identify and provide a basis for inquiry about unusual relationships and items that may indicate a material misstatement. Analytical procedures should be tailored to the engagement based on the accountant's knowledge of the entity's business and should include: (AR 100.36)

- (1) Developing expectations by identifying and using relationships expected to exist based on the accountant's understanding of the entity and the entity's industry.
- (2) Comparing recorded amounts, or ratios developed using recorded amounts, to the accountant's expectations.

Generally, the accountant is not required to corroborate management's responses with other evidence in a review engagement. The accountant should, however, consider the reasonableness and consistency of management's responses. (AR 100.37)

d. *Make inquiries of management and others.* The accountant must make inquiries of management and, when deemed appropriate, other company personnel with responsibility for financial and accounting matters (AR 100.29). The accountant should consider inquiring about the following items: (AR 100.38a)

- (1) Whether the financial statements have been prepared in conformity with GAAP (or an OCBOA) consistently applied.
- (2) The entity's accounting principles and practices and the methods used to apply them and the procedures for recording, classifying, and summarizing transactions; and accumulating information for disclosure in the financial statements.
- (3) Unusual or complex situations that may affect the financial statements.
- (4) Significant transactions occurring or recognized close to the end of the reporting period.
- (5) The status of uncorrected misstatements identified during the prior engagement.
- (6) Questions that have arisen while performing the review procedures.
- (7) Events occurring subsequent to the date of the financial statements that could materially affect the financial statements.
- (8) Their knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, for example, communications received from employees, former employees, or others.
- (9) Significant journal entries and other adjustments.
- (10) Communications from regulatory agencies.

- e. *Make other inquiries.* The accountant should also consider making inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board, or similar types of meetings that may affect the financial statements. (AR 100.38b)
- f. *Read the financial statements.* The accountant should read the financial statements and consider whether they conform with GAAP (or an OCBOA) based on information the accountant acquires while performing the review. (AR 100.38c)
- g. *Obtain reports from other accountants.* The accountant should obtain reports from any other accountants who have been engaged to audit or review the statements of any significant components, subsidiaries, or other investees of the entity. (AR 100.38d)
- h. *Obtain a representation letter.* The accountant must obtain a representation letter that includes specific representations. A written representation must be obtained for all financial statements and periods covered by the review report (AR 100.29). Such representations should relate to the following: (AR 100.39)
 - (1) Management's acknowledgment of its responsibility for the fair presentation of the financial statements in conformity with GAAP (or OCBOA).
 - (2) Management's belief that the financial statements are fairly presented in conformity with GAAP (or OCBOA).
 - (3) Management's acknowledgement of its responsibility to prevent and detect fraud.
 - (4) Knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, including any communications received from employees, former employees, or others.
 - (5) Management's full and truthful response to all inquiries.
 - (6) Completeness of information.
 - (7) Information concerning subsequent events.

The representation letter ordinarily should be tailored to include additional appropriate representations relating to matters specific to the entity's business or industry. Exhibit 2-6 presents an illustrative representation letter, reprinted from AR 100.102, Appendix F.

- i. *Perform additional procedures.* The accountant may become aware of information that is incorrect, incomplete, or otherwise unsatisfactory. If the accountant becomes aware of any evidence or information regarding fraud or an illegal act that may have occurred, the accountant should request that management consider the affect on the financial statements. Also, the accountant should consider the affect on the review report. If the accountant believes that the financial statements are materially misstated, he or she should perform any additional procedures deemed necessary to achieve the limited review assurance that no material modifications are necessary for the financial statements to conform with GAAP (or OCBOA). (AR 100.31)
- j. *Prepare documentation.* The accountant should prepare documentation designed to meet the circumstances of the specific engagement. Documentation is the principal record of the procedures performed and conclusions reached in a review engagement. However, an accountant may support the review report by alternate means in addition to the review documentation (for example written documentation in other engagement files or quality control files). In limited circumstances, oral explanations may be used to support the review report. However, oral explanations should not be used as the principal support for the work performed or conclusions reached. (AR 100.43)

SSARS do not specify the form or content of the documentation the accountant should prepare. However, the documentation should include any findings or issues deemed significant by the accountant, any

actions taken to address those findings or issues, and the basis for the final conclusions reached. (AR 100.44) The accountant should also document the following relating to inquiries and analytical procedures performed: (AR 100.45)

- (1) The matters covered in the inquiry procedures.
 - (2) The analytical procedures performed.
 - (3) The expectations when significant expectations are not otherwise readily determinable from the documentation of the work performed, and factors considered in the development of those expectations.
 - (4) Results of the comparison of the expectations to the recorded amounts or ratios developed from recorded amounts.
 - (5) Any additional procedures performed in response to significant unexpected differences arising from the analytical procedure and the results of such additional procedures.
 - (6) Unusual matters the accountant considered during the performance of the review procedures, including their disposition.
 - (7) Written or oral communications to management about fraud or illegal acts that come to the accountant's attention.
 - (8) The representation letter.
- k. *Communicate fraud or illegal acts.* The accountant should communicate to the appropriate level of management, about any fraud or illegal acts (other than those that are clearly inconsequential) that may have occurred. When potential fraud or illegal acts involve senior management, the accountant should report the matter to an individual or group at a higher level within the entity, such as the owner/manager or the board of directors. When an owner of the business is involved in potential fraud or illegal acts, the accountant should consider resigning from the engagement. (AR 100.84)
- l. *Report.* The accountant should issue the appropriate report.

Exhibit 2-6

Illustrative SSARS Review Representation Letter

[Date] ^a

[To the Accountant]

We are providing this letter in connection with your review of the [Identification of Financial Statements, for example, balance sheets and related statements of income and retained earnings, and cash flows] of [Name of Entity] as of [Dates, for example, December 31, 20X1 and December 31, 20X2] and for the [Periods of Review, for example, for the years then ended] for the purpose of expressing limited assurance that there are no material modifications that should be made to the statements in order for them to be in conformity with generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

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

We confirm, to the best of our knowledge and belief as of [Date of Accountant's Review Report], the following representations made to you during your review.

1. The financial statements referred to above are fairly presented in conformity with generally accepted accounting principles.
2. We have made available to you all:
 - a. Financial records and related data.
 - b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
4. We acknowledge our responsibility to prevent and detect fraud.
5. We have no knowledge of any fraud or suspected fraud affecting the entity involving management or others where the fraud could have a material effect on the financial statements, including any communications received from employees, former employees, or others.
6. We have no plans or intentions that may materially affect the carrying amounts or classification of assets and liabilities.
7. There are no material losses (such as from obsolete inventory or purchase or sales commitments) that have not been properly accrued or disclosed in the financial statements.
8. There are no:
 - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion that must be disclosed in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 450, *Contingencies*.^c
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450.
9. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed to you and reported in the financial statements.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
11. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the company is contingently liable.
 - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, *Risks and Uncertainties*. [Significant estimates are estimates at the

balance sheet date that could change materially 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.]

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

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

Name of Owner or Chief Executive
Officer and Title

Name of Chief Financial Officer
and Title, where applicable

Notes:

- ^a This date should be the date of the accountant's review report.
- ^b The qualitative discussion of materiality used in this letter is adapted from Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Information*.
- ^c If management has not consulted a lawyer regarding litigation, claims, and assessments, the representation might be worded as follows:

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

- ^d If the accountant *dual dates* his or her report, the accountant should consider whether obtaining additional representations relating to the subsequent event is appropriate.

* * *

Previously, this course discussed considerations for when the accountant performs additional procedures customarily performed as part of an audit. Those considerations also apply when the additional procedures are applied in a review engagement. In addition, knowledge gained from compiling or auditing the entity's financial statements, or from performing other accounting services, may cause the accountant to modify the review procedures described previously. However, such modification would not reduce the accountant's responsibility with respect to the reviewed financial statements. (AR 100.42)

Obtaining an Updating Representation Letter

In certain circumstances, such as when a significant subsequent event occurs or when issuance of financial statements is delayed, accountants should consider obtaining an updating management representation letter.

Also, predecessor accountants should obtain an updating representation letter if they are asked to reissue their report. (AR 100.40)

Updating representation letters should include: (AR 100.40)

- a. A statement about whether information has come to management's attention that would cause management to believe that previous representations should be modified.
- b. A statement about whether any subsequent events would require adjustments to or disclosure in the financial statements.

Exhibit 2-7 presents an illustrative updating representation letter.

Exhibit 2-7

Illustrative SSARS Updating Representation Letter

 [Date] ^a

 [To the Accountant]

In connection with your reviews of the balance sheets of [Name of Entity] as of [Dates] and the related statements of income, retained earnings, and cash flows for the [Periods] then ended for the purpose of expressing limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with generally accepted accounting principles, you were previously provided with a representation letter dated [Date of Previous Representation Letter] . No information has come to our attention that would cause us to believe that any of those previous representations should be modified.

To the best of our knowledge and belief, no events have occurred subsequent to [Date of Balance Sheet or Date of Previous Representation Letter] and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Name of Owner or Chief Executive
Officer and Title

Name of Chief Financial Officer
and Title, where applicable

Note:

- ^a If a subsequent event requiring disclosure occurs after the completion of the review but before issuance of the report, the accountant may either dual date the report or use the later date.

* * *

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

18. Which of the following statements regarding compilations is correct?
 - a. If an accountant observes inventory, the compilation engagement would change to a review engagement.
 - b. Analytical procedures provide the accountant with knowledge about the entity.
 - c. The accountant needs to read the compiled financial statements for adequate disclosures.
 - d. If the entity's industry is unfamiliar, the accountant may not perform the compilation.
19. When issuing a compilation report under the guidance of SSARS No. 13, the accountant should:
 - a. Understand the use of the report and whether a user would mistakenly infer assurance.
 - b. Understand the significant assumptions made.
 - c. Corroborate management's responses with other documentation.
 - d. Document in the workpapers the confirmation of accounts receivable procedures.
20. All of the following are requirements for a review engagement **except**:
 - a. Documentation is made of the performed procedures.
 - b. Corroborate management's responses with other evidence.
 - c. Read the financial statements for conformity to GAAP (or an OCBOA).
 - d. Examine financial statement ratios for unusual trends.
21. When issuing a compilation report under the guidance of SSARS No. 14, the accountant should:
 - a. Read the specified items to consider whether the information appears appropriate.
 - b. Compile the historical information for the entities before compiling the pro forma information.
 - c. Not present a significant assumptions summary.
 - d. Obtain an understanding with the entity regarding the type of report to be issued.
22. Which of the following engagements provides limited assurance that financial statements are materially correct?
 - a. An audit engagement.
 - b. A review engagement.
 - c. A pro forma engagement.
 - d. A compilation engagement.

23. Which of the following is a requirement of both compilation and review engagements?
- a. Accountant is independent of the entity.
 - b. The accountant determines management's responses to inquiries are reasonable.
 - c. The accountant is knowledgeable about the entity's industry.
 - d. The accountant receives a management representation letter.
24. Gavin has been engaged by Harrison Plumbing to do a review of their year-end financials. Which of the following is a requirement of a review that Gavin must complete for his review engagement?
- a. Gavin will need to confirm the receivables of Harrison Plumbing.
 - b. Gavin would need to gain an understanding of Harrison Plumbing's internal control policies.
 - c. Communicate any fraud affecting Harrison Plumbing when it has a material effect on the financial statements.
 - d. Confirm Harrison Plumbing's management responses to other evidence that Gavin discovers when completing the review.
25. Which of the following statements would be included in the representation letter that management would provide to the accountant completing the review of the entity's financial statements?
- a. It is the accountant responsibility to prevent and detect fraud in the entity.
 - b. The review should discover any material transactions that were not properly recorded in the financial statements.
 - c. Management should state in the representation letter that they are in agreement with the accountant on recommended adjusted journal entries.
26. In which type of engagement would a representation letter be obtained?
- a. A review engagement.
 - b. A compilation engagement.
 - c. A compilation management-use-only engagement.
 - d. A pro forma compilation engagement.
27. A representation letter would **not** include representations regarding which of the following?
- a. Management answered questions truthfully and fully.
 - b. Management is responsible for appropriate report terminology.
 - c. Management provided information of subsequent events.
 - d. Management complied with contractual agreements that would affect the financial statements.

28. When would obtaining an updated representation letter be appropriate?
- a. A review engagement is changed to a compilation engagement.
 - b. A review engagement includes procedures typically performed in an audit engagement.
 - c. A review engagement financial statement report is delayed.
 - d. A review engagement includes a change in pro forma assumptions.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

18. Which of the following statements regarding compilations is correct? **(Page 38)**

- a. If an accountant observes inventory, the compilation engagement would change to a review engagement. [This answer is incorrect. Performing other agreed upon procedures does not require the accountant to change the level of engagement. (AR 9100.46-.49)]
- b. Analytical procedures provide the accountant with knowledge about the entity. [This answer is incorrect. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures that are performed in a review. The objective of a compilation is to present, in the form of financial statements, information that is representation of management without undertaking to express any assurance on the financial statements.]
- c. **The accountant needs to read the compiled financial statements for adequate disclosures. [This answer is correct. The accountant should read the financial statements and consider whether they appear to be appropriate in form and free from obvious material errors such as inadequate disclosure. (AR100.11)]**
- d. If the entity's industry is unfamiliar, the accountant may not perform the compilation. [This answer is incorrect. The accountant may obtain knowledge by various means including consulting AICPA guides and consulting other knowledgeable individuals. (AR 100.08)]

19. When issuing a compilation report under the guidance of SSARS No. 13, the accountant should: **(Page 39)**

- a. **Understand the use of the report and whether a user would mistakenly infer assurance. [This answer is correct. The accountant should consider the intended use of the presentation and whether a user might infer an unintended level of insurance. (AR 110.04)]**
- b. Understand the significant assumptions made. [This answer is incorrect. The SSARS No. 13 report would not have significant assumptions to be reported.]
- c. Corroborate management's responses with other documentation. [This answer is incorrect. The SSARS No. 13 guidance would not include corroborating management's responses.]
- d. Document in the workpapers the confirmation of accounts receivable procedures. [This answer is incorrect. Confirmation of accounts receivable would be outside the scope of a SSARS No. 13 engagement.]

20. All of the following are requirements for a review engagement **except: (Page 39)**

- a. Documentation is made of the performed procedures. [This answer is incorrect. The accountant is required to document the review procedures. (AR 1100.45)]
- b. **Corroborate management responses with other evidence. [This answer is correct. Generally, the accountant is not required to corroborate management's responses with other evidence in a review engagement. (AR 100.37)]**
- c. Read the financial statements for conformity to GAAP (or an OCBOA). [This answer is incorrect. The accountant is required to read the financial statements for conformity to GAAP (or an OCBOA) (AR 100.38c).]
- d. Examine financial statement ratios for unusual trends. [This answer is incorrect. A review engagement includes analytical procedures to examine for unusual trends. (AR 100.36)]

21. When issuing a compilation report under the guidance of SSARS No. 14, the accountant should: **(Page 40)**
- a. Read the specified items to consider whether the information appears appropriate. [This answer is incorrect. Specified items are not reported under SSARS No. 14.]
 - b. Compile the historical information for the entities before compiling the pro forma information. [This answer is incorrect. SSARS No. 14 does not require compiling historical information.]
 - c. Not present a significant assumptions summary. [This answer is incorrect. If the summary of significant assumptions is not presented, SSARS No. 14 precludes the accountant from issuing a report.]
 - d. Obtain an understanding with the entity regarding the type of report to be issued. [This answer is correct. SSARS No. 14 indicates the accountant should establish an understanding with the client that includes a description of the report the accountant expects to issue.]**
22. Which of the following engagements provides limited assurance that financial statements are materially correct? **(Page 40)**
- a. An audit engagement. [This answer is incorrect. An audit engagement provides reasonable, not limited, assurance that the financial statements, taken as a whole, are free of material misstatement.]
 - b. A review engagement. [This answer is correct. A review is defined by SSARS in AR 100.04 as “a service, the objective of which is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with GAAP.”]**
 - c. A pro forma engagement. [This answer is incorrect. The objective of a pro forma financial engagement is to show what the significant effects on historical financial information might have been had a transaction or event occurred at an earlier date. It does not provide any assurance that the current financial statements are materially correct.]
 - d. A compilation engagement. [This answer is incorrect. A compilation, as defined in AR 100.014 of the SSARS, is “a service, the objective of which is to present in the form of financial statement, information that is the representation of management without undertaking to express any assurance” on them.]
23. Which of the following is a requirement of both compilation and review engagements? **(Page 40)**
- a. Accountant is independent of the entity. [This answer is incorrect. Independence is not required for SSARS compilation engagements, but is required for review engagements.]
 - b. The accountant determines managements' responses to inquires are reasonable. [This answer is incorrect. Compilations do not require inquires of management, although reviews do require inquires of management and other company personnel with responsibility for financial and accounting matters. (AR 100.38a).]
 - c. The accountant is knowledgeable about the entity's industry. [This answer is correct. Accountants need to be knowledgeable about the entity's industry in both compilations and reviews per AR 100.09 and AR 100.35.]**
 - d. The accountant receives a management representation letter. [This answer is incorrect. Compilations do not require representation letters. Reviews do require a representation letter. (AR 100.29).]

24. Gavin has been engaged by Harrison Plumbing to do a review of their year-end financials. Which of the following is a requirement of a review that Gavin must complete for his review engagement? **(Page 40)**
- a. Gavin will need to confirm the receivables of Harrison Plumbing. [This answer is incorrect. Gavin would not be required to confirm the receivables in a review engagement, since that is beyond the scope of a review. The test of accounting records by obtaining sufficient appropriate audit evidence through confirmation of receivables would be completed in an audit.]
 - b. Gavin would need to gain an understanding of Harrison Plumbing's internal control policies. [This answer is incorrect. In a review engagement, the auditor does not gain an understanding of the internal control procedures. It is beyond the scope of a review, but would be included when the auditor is completing an audit engagement.]
 - c. **Communicate any fraud affecting Harrison Plumbing when it has a material effect on the financial statements. [This answer is correct. Gavin should communicate knowledge of any fraud or suspected fraud affecting Harrison Plumbing involving management or other where the fraud could have a material effect on the financial statements. (AR 100.39)]**
 - d. Confirm Harrison Plumbing's management responses to other evidence that Gavin discovers when completing the review. [This answer is incorrect. Gavin is not required to corroborate the response that is received from Harrison Plumbing's management with other evidence in the review engagement. He should, however, consider the reasonableness and consistency of the responses received from management. (AR 100.37)]
25. In which type of engagement would a representation letter be obtained? **(Page 43)**
- a. It is the accountant responsibility to prevent and detect fraud in the entity. [This answer is incorrect. It is the accountant responsibility to communicate any knowledge of fraud discovered by completing the review of the financial statements, as stated in AR 100.39, but it is management's responsibility to prevent and detect fraud. Management should acknowledge their responsibility for the prevention and detection of fraud in the representation letter to the accountant.]
 - b. The review should discover any material transactions that were not properly recorded in the financial statements. [This answer is incorrect. In the management representation letter to the accountant, management should claim that there are no material transactions that have not been properly recorded in the accounting records underlying the financial statements, since a review is only intended to provide limited assurance that there no material modifications that need to be made to the financial statements in order for the statements to be in conformity with GAAP. (AR 100.04)]
 - c. **Management should state in the representation letter that they are in agreement with the accountant on recommended adjusted journal entries. [This answer is correct. In the representation letter signed by management, there should be a statement affirming the agreement of the adjusted journal entries recommended by the accountant to management and that the company has posted all recommended journal entries.]**
26. In which type of engagement would a representation letter be obtained? **(Page 43)**
- a. **A review engagement. [This answer is correct. Representation letters are required in review engagements per AR 100.29]**
 - b. A compilation engagement. [This answer is incorrect. Representation letters are not required by the various compilation SSARS.]
 - c. A compilation management-use-only engagement. [This answer is incorrect. SSARS No. 8 does not require a representation letter.]
 - d. A pro forma compilation engagement. [The answer is incorrect. SSARS No. 14 does not require a representation letter.]

27. A representation letter would **not** include representations regarding which of the following? **(Page 43)**

- a. Management answered questions truthfully and fully. [This answer is incorrect. Management should represent the accountant's questions were answered truthfully and fully.]
- b. Management is responsible for appropriate report terminology. [This answer is correct. The accountant is responsible for issuing the appropriate report.]**
- c. Management provided information of subsequent events. [This answer is incorrect. Management is responsible for notifying the accountant of subsequent events.]
- d. Management complied with contractual agreements that would affect the financial statements. [This answer is incorrect. Management should acknowledge that they complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.]

28. When would obtaining an updated representation letter be appropriate? **(Page 45)**

- a. A review engagement is changed to a compilation engagement. [This answer is incorrect. Generally a compilation engagement does not include a representation letter.]
- b. A review engagement includes procedures typically performed in an audit engagement. [This answer is incorrect. Generally additional procedures would be included in an engagement letter.]
- c. A review engagement financial statement report is delayed. [This answer is correct. The accountant would request an updated representation letter to be dated the date of the financial statement report if the financial statements were delayed. (AR 100.40)]**
- d. A review engagement includes a change in pro forma assumptions. [This answer is incorrect. A review engagement would not include pro forma assumptions.]

CHANGE IN LEVEL OF ENGAGEMENT

Other Compilation and Review Performance Standards

An accountant who has been engaged to perform an audit (or SSARS review) of a nonissuer may be requested to change the engagement to a SSARS review (or compilation) before the original engagement is completed. Such a request may result from—

- a. changed circumstances that affect the entity's need for an audit (review),
- b. a misunderstanding about the nature of an audit, review, or compilation, or
- c. a restriction on the scope of the audit (review) imposed by the client or caused by circumstances.

The accountant requested to make such a change in the level of engagement should consider at least the following matters: (AR 100.87)

- The reason for the request. Changed circumstances (item a. in the preceding paragraph) or a misunderstanding (item b.) ordinarily are a reasonable basis for a change in the level of engagement. (AR 100.88)
- The additional audit (review) effort required to complete the audit (review). The accountant should consider the propriety of making the change if the audit (review) procedures are substantially complete. (AR 100.90)
- The estimated additional cost to complete the audit (review). The accountant should consider the propriety of making the change if the cost to complete the audit (review) is relatively insignificant. (AR 100.90)

If the reason for the request is a limitation on the scope of the audit (review) caused by the client or circumstances, the accountant should consider the implication of the restriction. (AR 100.87) The accountant should also consider the following matters: (AR 100.89)

- The accountant should evaluate the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory.
- If an audit scope restriction is a client prohibition from corresponding with the client's attorney, the accountant ordinarily cannot issue a review or compilation report.
- If the audit or review scope restriction is the client's refusal to provide a signed representation letter, the accountant cannot issue a review report and ordinarily cannot issue a compilation report.

The accountant who concludes that a change in the level of engagement is reasonably justified should comply with the review (or compilation) standards applicable to the changed level of engagement. The review (or compilation) report should not include a reference to any of the following matters: (AR 100.91)

- a. the original engagement,
- b. any audit (review) procedures that may have been performed, or
- c. scope limitations that resulted in the change in the level of engagement.

Going Concern Considerations

If, while performing compilation and review procedures, the accountant becomes aware of information indicating an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements, the accountant should request that management consider (a) the possible effects on the financial statements and (b) the need for related disclosure. (AR 100.69)

The accountant should consider the reasonableness of management's conclusions, including any related disclosures. If the accountant determines that management's conclusions are unreasonable or that disclosure of the going concern uncertainty is not adequate, the accountant should follow the guidance for GAAP departures. The accountant's report may emphasize an uncertainty about the entity's ability to continue as a going concern provided the uncertainty is disclosed in the financial statements.

Subsequent Events Considerations

Information that a subsequent event with a material effect on the financial statements has occurred may come to the accountant's attention either while performing compilation or review procedures or subsequent to the date of the report. If the accountant becomes aware of events or transactions occurring subsequent to the balance sheet date, but prior to issuance of the financial statements, that have a material effect on the financial statements, the accountant should ask management to consider the possible effects on the financial statements including any related disclosure. (AR 100.74)

If the accountant determines that the subsequent event is not adequately accounted for in the financial statements or adequately disclosed in the notes, the accountant should follow the guidance for GAAP departures. Occasionally, a subsequent event has such a material impact on the entity that the accountant may wish to include an explanatory paragraph about the event in the accountant's report. Such an emphasis of matter paragraph is not required, but may be added at the accountant's discretion, provided the matter is disclosed in the financial statements. (AR 100.76)

Subsequent Discovery of Facts Existing at the Date of the Report

After the date of a compilation or review report, accountants may become aware of facts that may have existed at the report date and that, had they known of them, might have caused them to believe that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory. Because of the legal implications involved, accountants are advised to consult with their legal counsel and insurance provider in this situation. (AR 100.77)

If the accountant becomes aware of information that is of such a nature and from such a source that it would have been investigated had it come to the accountant's attention during the compilation or review engagement, he or she should, as soon as practicable, determine whether the information is reliable and whether the facts existed at the date of the report. The accountant should discuss the matter with appropriate client personnel, including the board of directors, and request cooperation in any necessary investigation. In a compilation engagement, that investigation would consist of obtaining additional or revised information. In a review engagement, that investigation would consist of performing the additional procedures deemed necessary to achieve limited assurance that no material modifications should be made to the financial statements for them to be in conformity with generally accepted accounting principles. (AR 100.78)

If, after investigation, the accountant concludes that it is necessary to prevent further use of the financial statements or the accountant's report, he or she should advise the client to make appropriate disclosure of the newly discovered facts and their impact on the financial statements to persons who are using or who are likely to use the financial statements. The method used and the disclosures made by the client might, depending upon the circumstances, take one of the following forms: (AR 100.79)

- Issuance of revised financial statements and, if applicable, the accountant's report as soon as practicable. The reasons for the revision usually should be described in a note to the financial statements and, if applicable, referred to in the accountant's report. (This method would generally be appropriate if the effect on the accountant's report or the financial statements of the subsequently discovered information can be promptly determined.)
- Disclosure of the revision in subsequent financial statements instead of reissuing the earlier statements. (This method would generally be appropriate when issuance of subsequent period financial statements is imminent.)
- Notification by the client to persons who are known to be using or who are likely to use the financial statements that they should not be used, and that revised financial statements and the accountant's report

(if applicable) will be issued as soon as practicable. (This method would generally be appropriate when the effect on the financial statements of the subsequently discovered information cannot be promptly determined.)

If the client refuses to make the requested disclosures, the accountant should notify appropriate client personnel, such as the manager (owner) or the board of directors, that unless disclosure is made, the accountant will take steps to prevent further use of the financial statements and, if applicable, the report on the financial statements. Unless the accountant's legal counsel recommends a different course of action, the accountant should make the following notifications to the extent applicable: (AR 100.81)

- Notify the client that the report must no longer be associated with the financial statements.
- Notify regulatory agencies with jurisdiction over the client that the report should no longer be used.
- Notify each person known to the accountant to be using the financial statements that the statements and the report should no longer be used. (When the accountant does not know the identity of all the individuals, notifying a regulatory agency with jurisdiction over the client will usually be the only practicable way for the accountant to provide appropriate disclosure. The notification should include a request for the agency to take whatever steps it considers appropriate to achieve the necessary disclosure.)

When making disclosures to anyone other than the client, the accountant should: (AR 100.82)

- Describe the nature of the subsequently acquired information and its effect on the financial statements.
- Present the information as precisely and factually as possible, and limit the discussion to that which is reasonably necessary to describe the nature of the information and its effect on the financial statements. If the client has not cooperated, the accountant's disclosure does not have to provide detailed information but, instead, can indicate that information has come to the accountant's attention with which the client has not cooperated in attempting to substantiate, and that, if the information is true, the accountant believes that the compilation or review report must no longer be used or associated with the financial statements. Comments concerning the conduct or motives of any person should be avoided.

Financial Statements Reported on by a Predecessor

If successor accountants become aware of information causing them to believe that financial statements reported on by a predecessor may require revision, they should ask the client to notify the predecessor. The previous paragraphs give guidance the predecessor would follow in deciding a course of action. The successor should evaluate the possible implications of a client refusal or dissatisfaction with a predecessor's course of action for the current engagement and whether to resign from the engagement. The successor may decide to consult his or her attorney in determining an appropriate course of further action if the client refuses to notify the predecessor or if the successor is not satisfied with the predecessor's course of action. (AR 400.11)

Restated Prior-period Financial Statements. If prior-period financial statements presented along with current-period statements have been restated, the successor accountant is allowed to issue a compilation or review report on the financial statements for both years. Alternatively, the predecessor accountant could update his or her report. If the predecessor's report is not reissued and the successor decides not to report on the prior-period restated financial statements, the successor's report should indicate (in the introductory paragraph) that a predecessor accountant reported on the prior-period statements before they were restated. The successor accountant's report may also indicate that the successor compiled or reviewed the restatement adjustments, if applicable. (AR 200.25)

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

29. Which of the following is **not** a consideration an accountant should make when changing a level of engagement from compilation to review?
- a. The additional cost to complete the review engagement.
 - b. The additional time and resources to complete the review engagement.
 - c. The reason the company is requesting a review engagement.
 - d. The appropriate report language to discuss the change in the engagement.
30. If an audit engagement is changed to a review engagement, the review report should:
- a. State a review was performed instead of an audit.
 - b. List audit procedures performed.
 - c. State scope limitations resulting in the change.
 - d. Be issued in accordance with SSARS.
31. If an accountant becomes aware of facts that existed at the compilation report date that would have been considered in the engagement, but were unknown at that time leading to incorrect compiled financial statements, the accountant should:
- a. Notify the client's attorney.
 - b. Document the facts for the next year's compilation.
 - c. Propose changing the engagement to a review.
 - d. Advise the client to notify third parties who may be relying on the financial statements.
32. If a predecessor's prior period review financial statements need to be restated, but are not, what is an option for the successor accountant?
- a. The successor should add a footnote in the current year report.
 - b. The successor should change the review engagement to a compilation.
 - c. The report may state a predecessor issued prior year statements before restatement.
 - d. The successor accountant needs to report a scope restriction on the financial statements.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

29. Which of the following is **not** a consideration an accountant should make when changing a level of engagement from compilation to review? **(Page 54)**
- a. The additional cost to complete the review engagement. [This answer is incorrect. The accountant should consider the cost to complete the review and come to agreement with the client for payment. (AR 100.87)]
 - b. The additional time and resources to complete the review engagement. [This answer is incorrect. The accountant should consider if the resources are available to complete a review engagement. (AR 100.87)]
 - c. The reason the company is requesting a review engagement. [This answer is incorrect. The accountant should conclude the change in level of engagement is reasonably justified. (AR 100.87)]
 - d. **The appropriate report language to discuss the change in the engagement. [This answer is correct. The review report would not reference the change in the level of engagement. (AR 100.91)]**
30. If an audit engagement is changed to a review engagement, the review report should: **(Page 54)**
- a. State a review was performed instead of an audit. [This answer is incorrect. The review report should not reference a change in the level of engagement.]
 - b. List audit procedures performed. [This answer is incorrect. The review report should not list any audit procedures performed before the change in level of engagement.]
 - c. State scope limitations resulting in the change. [This answer is incorrect. The review report should not reference scope limitations that resulted in the change in level of engagement.]
 - d. **Be issued in accordance with SSARS. [This answer is correct. The review report should be issued as if the engagement had always been a review.]**
31. If an accountant becomes aware of facts that existed at the compilation report date that would have been considered in the engagement, but were unknown at that time leading to incorrect compiled financial statements, the accountant should: **(Page 55)**
- a. Notify the client's attorney. [This answer is incorrect. The accountants should consult with their own attorney.]
 - b. Document the facts for the next year's compilation. [This answer is incorrect. The accountant should address the concerns for the current year compilation issued.]
 - c. Propose changing the engagement to a review. [This answer is incorrect. The accountant would consider the impact on the current year compiled financial statements.]
 - d. **Advise the client to notify third parties who may be relying on the financial statements. [This answer is correct. The accountant should notify persons known or likely to be relying on the statements (AR 100.79)]**

32. If a predecessors' prior period review financial statements need to be restated, but are not, what is an option for the successor accountant? **(Page 56)**
- a. The successor should add a footnote in the current year report. [This answer is incorrect. There is not an appropriate footnote for such a situation.]
 - b. The successor should change the review engagement to a compilation. [This answer is incorrect. This situation would not be justification for a change in level of engagement.]
 - c. The report may state a predecessor issued prior year statements before restatement. [This answer is correct. The successor's report should indicate that a predecessor accountant reported on the prior-period statements before they were adjusted. (AR 200.25)]**
 - d. The successor accountant needs to report a scope restriction on the financial statements. [This answer is incorrect. Financial Statement reports do not include scope restrictions.]

COMPILATION OF MANAGEMENT-USE-ONLY FINANCIAL STATEMENTS

SSARS No. 8 (AR 100.24–.27), *Amendment to Statement on Standards for Accounting and Review Services No. 1, "Compilation and Review of Financial Statements,"* allows CPAs to provide management-use-only financial statements without issuing a compilation report.

SSARS No. 8 does the following:

- Allows an accountant to provide clients with management-use-only financial statements without issuing a compilation report if the statements are *not reasonably expected to be used by third parties*.
- Requires the accountant to document an understanding with the entity through an engagement letter, *preferably* signed by management. The accountant should not accept or perform the engagement if the accountant believes that an understanding with the client has not been established. (AR 100.25)
- Requires the accountant to follow the compilation performance standards in SSARS No. 1, which were discussed previously.
- Requires each page of the financial statements to include a reference restricting their use, such as "Restricted for Management's Use Only," or "Solely for the information and use by the management of [name of entity] and not intended to be and should not be used by any other party." (AR 100.26)

Management

The term *management* is defined by AR 100.04 as consisting of "the person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting."

The Understanding with the Entity

The documented understanding with the entity should include the following matters: (AR 100.25)

- A description of the nature and limitations of the services to be performed.
- A statement that a compilation is limited to presenting in the form of financial statements information that is the representation of management.
- A statement that the financial statements will not be audited or reviewed.
- A statement that no opinion or any other form of assurance on the financial statements is (or will be) provided.
- A statement that management has knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements.
- An acknowledgment of management's representation and agreement that the financial statements are not to be used by third parties.
- A statement that the engagement cannot be relied upon to disclose errors, fraud, or illegal acts.
- If applicable, a statement that material departures from GAAP or an OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed.
- If applicable, a statement that substantially all disclosures [and the statement of comprehensive income (AR 9100.96) and statement of cash flows, if applicable] required by GAAP or an OCBOA may be omitted.

- If applicable, a statement of the accountant's lack of independence.
- If applicable, a reference to supplementary information.

The documented understanding should also include a statement that the accountant will inform the appropriate level of management of any material errors and any evidence or information that comes to the accountant's attention during the performance of the compilation procedures, that fraud or an illegal act may have occurred. (Illegal acts that are clearly inconsequential do not need to be communicated.) (AR 100.05)

Exhibit 2-8 presents an illustrative engagement letter for a compilation of management-use-only financial statements.

Exhibit 2-8

Illustrative Compilation Engagement Letter— Management-use-only Financial Statements

[Appropriate Salutation]

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

We will perform the following services:

1. We will compile, from information you provide, the (monthly, quarterly, or other frequency) financial statements of XYZ Company for the year 20XX. We will compile the financial statements in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to present in the form of financial statements, information that is the representation of management (owners) without undertaking to express any assurance on the financial statements.

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

The financial statements will not be accompanied by a report. Based upon our discussions with you, these statements are for management's use only and are not intended for third-party use.

Material departures from generally accepted accounting principles (GAAP) may exist and the effects of those departures, if any, on the financial statements may not be disclosed. In addition substantially all disclosures required by GAAP or OCBOA may be omitted. Because of the extent of material departures that may exist in, or required disclosures that may be omitted from, the financial statements, we make no representations regarding the appropriateness of such statements for your intended use or for any other purpose. Moreover, because of the nature of this engagement, we are not responsible for communicating any such departures or omissions to you.

Notwithstanding these limitations, you represent that you have knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements that allows you to place the financial information in the proper context. Further, you represent and agree that the use of the financial statements will be limited to members of management with similar knowledge.

[Furthermore, you represent and agree that the financial statements are intended solely for your information and use and are not intended to be and should not be used by third parties. You also represent and agree that you will not distribute the statements to such third parties.]

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors and any evidence or information that comes to our attention during the performance of our compilation procedures, that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred unless they are clearly inconsequential. We have no responsibility to identify and communicate significant deficiencies or material weaknesses in your internal control as part of this engagement.

2. We will also (discussion of other services—optional)

You are responsible for making all management decisions and performing all management functions, and for designating an individual with suitable skill, knowledge, and/or experience, preferably within senior management, to oversee any bookkeeping services, tax services, or other services we provide. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services. You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

(If applicable—We are not independent with respect to [Name of Entity].)

(If applicable—The other data accompanying the financial statements are presented only for supplementary analysis purposes and will be compiled from information that is the representation of management, without audit or review, and we do not express an opinion or any other form of assurance on such data.)

[Name of Engagement Partner] is the engagement partner and is responsible for supervising the engagement.

Our fees for these services . . .

Should you require financial statements for third-party use, we would be pleased to discuss with you the requested level of service. Such engagement would be considered separate and not deemed to be part of the services described in this engagement letter.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.^a

Sincerely yours,

Signature of Accountant

Accepted and agreed to:

XYZ Company

Title

Date

Note:

^a Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning, "If you agree with . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement . . ."

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The Accountant's Responsibility When There Is Third-party Use

If the accountant becomes aware that statements intended only for management-use have been distributed to third parties, the accountant should ask the client to have the statements returned. If the client does not comply with this request within a reasonable period of time, the accountant should notify known third parties that the financial statements are not intended for third-party use, preferably in consultation with the accountant's attorney. (AR 100.27)

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

33. If an accountant has compiled financial statements for a client in years past to meet a vendor's requirements for a line of credit, it would be inappropriate for the accountant to issue which of the following reports in the current year?
- a. Audit report.
 - b. Review report.
 - c. Compilation report.
 - d. Management-use-only report.
34. Which of the following would be appropriate in management-use-only financial statements?
- a. Each page of the financial statements is stamped "Internal Use Only."
 - b. The financial statement report states "Restricted—Management Use Only."
 - c. Each page of the financial statements is stamped "Restricted—Management Use Only."
 - d. The financial statements may be published in the employee newsletter.
35. Sara has been engaged to compile management-use-only financial statements for Fruit Basket Distribution, Co. Which of the following should Sara document with Fruit Basket to make sure that each party understands what the engagement will entail?
- a. Sara should document for Fruit Basket Distribution the limitation of the services that she intends to provide in her engagement.
 - b. Sara will provide an opinion on the management-use-only financial statements that she prepares for Fruit Basket Distribution.
 - c. Sara will reassure Fruit Basket Distribution that the engagement will discover any errors contained in the financial statements.
 - d. Any material departures from GAAP will be ascertained by Sara when compiling the management-use-only financial statements.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

33. If an accountant has compiled financial statements for a client in years past to meet a vendor's requirements for a line of credit, it would be inappropriate for the accountant to issue which of the following reports in the current year? **(Page 60)**
- a. Audit report. [This answer is incorrect. If an entity requests an audit, the accountant could change the engagement.]
 - b. Review report. [This answer is incorrect. An accountant may provide a review engagement and issue a review report if the client proposes a change in engagement.]
 - c. Compilation report. [This answer is incorrect. The engagement may stay the same.]
 - d. **Management-use-only report. [This answer is correct. If obvious facts suggest that the financial statements might be used by third parties, the accountant should compile and report on the financial statements in accordance with SSARS No. 1.]**
34. Which of the following would be appropriate in management-use-only financial statements? **(Page 60)**
- a. Each page of the financial statements is stamped "Internal Use Only." [This answer is incorrect. Internal use does not limit the use to management and would be inappropriate.]
 - b. The financial statement report states "Restricted—Management Use Only." [This answer is incorrect. Each page of the financial statements would need to report the restriction.]
 - c. **Each page of the financial statements is stamped "Restricted—Management Use Only." [This answer is correct. The restriction needs to be included on each page of the financial statements. (AR 100.26)]**
 - d. The financial statements may be published in the employee newsletter. [This answer is incorrect. Employees other than management are restricted from the financial statements.]
35. Sara has been engaged to compile management-use-only financial statements for Fruit Basket Distribution, Co. Which of the following should Sara document with Fruit Basket to make sure that each party understands what the engagement will entail? **(Page 63)**
- a. **Sara should document for Fruit Basket Distribution the limitation of the services that she intends to provide in her engagement. [This answer is correct. Per AR 100.25, a documented understanding with the entity about a compilation of management-use-only financial statements should include a description of the nature and limitation of the services to be performed by the accountant.]**
 - b. Sara will provide an opinion on the management-use-only financial statements that she prepares for Fruit Basket Distribution. [This answer is incorrect. In the documentation, Sara should note that no opinion or any other form of assurance will be provided on the compilation of financial statements according to AR 100.25.]
 - c. Sara will reassure Fruit Basket Distribution that the engagement will discover any errors contained in the financial statements. [This answer is incorrect. In a compilation of management-use-only financial statements, the accountant should document for the client that the engagement cannot be relied upon to disclose errors, fraud or illegal acts. (AR 100.25)]
 - d. Any material departures from GAAP will be ascertained by Sara when compiling the management-use-only financial statements. [This answer is incorrect. Sara should document for Fruit Basket Distribution that material departures from GAAP or an OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed. (AR 100.25)]

EXAMINATION FOR CPE CREDIT**Lesson 2 (GASTG091)**

Determine the best answer for each question below. Then mark your answer choice on the **Examination for CPE Credit Answer Sheet** located in the back of this workbook or by logging onto the Online Grading System.

Please refer to the following information to answer questions 11–13.

Accountant A has reviewed the financial statements of ABC Entity for the past 5 years. ABC Entity asked Accountant B and Accountant C to propose on the review engagement on November 15, 20X1. On December 5, 20X1 the proposals from Accountant B and Accountant C were received. On December 15, 20X1 Accountant C was selected.

11. Who was a successor accountant on December 10, 20X1?
 - a. Accountant A.
 - b. Accountant B.
 - c. Accountant C.
 - d. Accountant B and C.
12. Who was the predecessor accountant on December 10, 20X1?
 - a. Accountant A.
 - b. Accountant B.
 - c. Accountant C.
 - d. Accountant B and C.
13. Who was the successor accountant on December 16, 20X1?
 - a. Accountant A.
 - b. Accountant B.
 - c. Accountant C.
 - d. Accountant B and C.
14. Match the following example information for inclusion in the appropriate engagement letter.
 - A. Standard Compilation Engagement Letter
 - B. Engagement Letter Compilation of Specified Elements, Accounts, Or Items of a Financial Statement.
 - C. Engagement Letter Compilation of Pro Forma Financial Information
 - D. Engagement Letter Management-use-only Financial Statements
 - i. Accountant responsible for compilation of officer profit sharing plan distribution.
 - ii. Management responsible for supervising bookkeeping services of their accountant.

- iii. Management responsible to educate users of the financial statements.
- a. A i, ii, iii; B i, iii; C i, ii; D i, ii.
 - b. A ii; B i, ii, iii; C ii, iii; D i, ii.
 - c. A ii; B i, ii; C ii; D ii, iii.
 - d. A i, ii; B i, ii; C i, ii; D ii.
15. Which of the following is **not** required in a review engagement?
- a. Obtaining an engagement letter.
 - b. Performing analytical procedures.
 - c. Documenting analytical procedures.
 - d. Obtaining a management representation letter.
16. A review engagement letter would state the accountant is responsible for which of the following?
- a. Monitoring the entity's internal controls.
 - b. Analytical procedures on the financial data.
 - c. Determining the adequacy of the report issued.
 - d. Reviewing the accuracy of bookkeeping services.
17. Who is responsible for signing an engagement letter?
- a. The entity's president and chief financial officer.
 - b. The accountant and possibly the entity's president.
 - c. The entity's president and predecessor accountant.
 - d. The entity's president only.
18. Which of the following engagement letters would have a statement that the engagement does not provide the same level of assurance that an audit provides?
- a. Review engagement.
 - b. Compilation engagement.
 - c. Management-use-only review engagement.
 - d. Compilation pro forma engagement.

19. Which of the following statements regarding compilations is **incorrect**?
- a. The accountant does not need to corroborate information provided by the entity.
 - b. SSARS provide detailed guidance on planning and supervising a compilation engagement.
 - c. The accountant needs to know the qualifications of the entity's accounting employees.
 - d. A compilation of management-use-only financial statements requires an engagement letter.
20. Which of the following statements regarding pro forma financial statements is **incorrect**?
- a. The entity's management is responsible for the reasonableness of the pro forma assumptions.
 - b. An accountant can issue a pro forma report without a significant assumptions summary.
 - c. The accountant needs to consider the entity's intended use of the financial statements.
 - d. The accountant considers if the financial statements include material errors.
21. Which of the following would **not** be an inquiry made of management during a review engagement?
- a. Actions taken at stockholder meetings.
 - b. Regulatory agency communications.
 - c. Assumptions in pro forma information.
 - d. Correction status of previous misstatements.
22. A review engagement requires which of the following?
- a. Obtaining an understanding of internal control.
 - b. Assessing control risk.
 - c. Testing accounting records.
 - d. Performing analytical procedures.
23. If an accountant becomes aware of reviewed financial statements being materially incorrect, the accountant should take what course of action?
- a. Issue a compilation financial statement report instead.
 - b. Contact the entity's legal counsel.
 - c. Require the financial statements to be audited.
 - d. Request management to adjust the financial statements.

24. If an accountant discovers the owner of a company is involved in potential illegal acts, the accountant should:
- Consider resigning from the engagement.
 - Contact the company's legal counsel.
 - Notify the shareholders of the discovery.
 - Disclose the situation in the engagement's report.
25. Which of the following statements should be included in an updating representation letter?
- The company does not intend to significantly change the classification of assets.
 - The company has appropriately disclosed significant estimates.
 - The company is unaware of any subsequent events that require disclosure or adjustment.
 - The company does not have new information that would change a previous representation.
- I., II., and IV
 - III. and IV.
 - II., III., and IV.
 - II. and III.
26. An accountant proposes on a new review engagement on October 5, 20X1. On November 16, 20X1 the accountant reviewed the predecessor's relevant workpapers. The review engagement begins on February 18, 20X2. The review engagement is completed on March 20, 20X2. What date should the management representation letter be dated?
- October 5, 20X1.
 - November 16, 20X1.
 - February 18, 20X2.
 - March 20, 20X2.
27. An accountant is rehired to perform a review engagement on November 6, 20X1. The review engagement begins on January 29, 20X2. The review engagement is completed on February 27, 20X2. On March 5, 20X2 (before the review report has been issued) a significant subsequent event occurs at the entity. The review financial statement report is dated April 7, 20X2. What date should the management representation letter be dated?
- April 7, 20X2.
 - March 5, 20X2.
 - February 27, 20X2.
 - January 27, 20X2.

28. For which of the following reasons may an accountant reasonably justify changing the level of an engagement?
- I. The entity did not understand the difference between a compilation and review.
 - II. Circumstances place a restriction on the scope of a review.
 - III. The entity circumstances have changed from the prior year.
- a. I. and II.
 - b. II. and III.
 - c. I. and III.
 - d. I., II. and III.
29. Under which of the following circumstances would an accountant be able to change an audit report to a review report?
- a. A new owner will not sign a representation letter for the period prior to purchasing the entity.
 - b. Management will not sign a representation letter.
 - c. The nonpublic entity's debt requiring an annual audit has been paid in full.
 - d. The accountant is unable to communicate with the entity's attorney at the client's request.
30. If a successor accountant is aware of information that would cause a prior period adjustment, the successor should:
- a. Notify the predecessor accountant to reissue the financial statements.
 - b. Request the company to notify the predecessor accountant to reissue the financial statements.
 - c. Consider whether the engagement was a review or compilation, in determining the appropriate action.
 - d. The successor accountant should obtain written representation regarding subsequent events.
31. If a predecessor accountant reissues prior-period financial statements for a review engagement, which of the following statements is **incorrect**?
- a. The successor accountant is only permitted to issue a review report on the current year.
 - b. The successor accountant may inform their legal counsel.
 - c. The predecessor accountant should obtain written representation regarding subsequent events.
 - d. In determining whether to notify users of the prior-period review report, the predecessor accountant should consider the time since the report was issued.

32. Which SSARS gives guidance specific to management-use-only financial statements?
- a. SSARS No. 3.
 - b. SSARS No. 5.
 - c. SSARS No. 8.
 - d. SSARS No. 9.
33. SSARS requires compilation reports to be issued for all of the following engagements **except**:
- a. Management-use-only financial statements.
 - b. Pro forma financial information.
 - c. Personal financial statements.
 - d. Nonprofit organization financial statements.
34. Which of the following engagement letters would discuss material departures from GAAP?
- a. Engagement letter for a compilation of specified elements, accounts, or items of a financial statement.
 - b. Engagement letter for a compilation of pro forma financial information.
 - c. Engagement letter for a compilation of management-use-only financial statements.
 - d. Engagement letter for a review of pro forma financial information.
35. The accountant would not necessarily need to read the financial statements for inadequate disclosure for which of the following engagements?
- a. Review engagement.
 - b. Compilation of Pro Forma engagements.
 - c. Compilation of specified elements, accounts, or items engagements.
 - d. Compilation of Management-use-only financial statements.

GLOSSARY

Nonpublic entity: A nonpublic entity a.) does not trade securities in a public market, b.) does not file with a regulatory agency for the sale of its securities in a public market, and c.) is not a subsidiary, corporate joint venture, or other entity controlled by an entity in a. or b.

Predecessor accountant: An accountant who (a) has reported on the most recent compiled or reviewed financial statements or was engaged to perform but did not complete a compilation or review of the financial statements and (b) has resigned, declined to stand for reappointment, or been notified that his or her services have been, or may be, terminated.

Pro forma: Pro forma financial information adjusts historical information to show the possible effects of a completed or proposed transaction, such as a business combination.

Submission: An accountant presents financial statements he or she prepared either manually or through the use of computer software.

Successor accountant: An accountant who has been invited to make a proposal for an engagement to compile or review financial statements and is considering accepting the engagement or an accountant who has accepted such an engagement.

Third parties: All parties except for members of management who are knowledgeable about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements. (AR 100.04)

Trier of fact: A Trier of fact is a court, regulatory body, or government authority; their agents; a grand jury; or an arbitrator or mediator of the dispute.

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COMPANION TO PPC'S GUIDE TO GAAS**COURSE 2****ACCOUNTING AND REVIEW SERVICES REPORTING STANDARDS AND QUALITY CONTROL STANDARDS FOR GAAS (GASTG092)****OVERVIEW**

COURSE DESCRIPTION:	This interactive self-study course discusses reporting standards specific to compilation engagements, SSARS review engagements, and statements on quality control standards.
PUBLICATION/REVISION DATE:	December 2009
RECOMMENDED FOR:	Users of <i>PPC's Guide to GAAS</i>
PREREQUISITE/ADVANCE PREPARATION:	Basic knowledge of accounting
CPE CREDIT:	5 QAS Hours, 5 Registry Hours Check with the state board of accountancy in the state in which you are licensed to determine if they participate in the QAS program and allow QAS CPE credit hours. This course is based on one CPE credit for each 50 minutes of study time in accordance with standards issued by NASBA. Note that some states require 100-minute contact hours for self study. You may also visit the NASBA website at www.nasba.org for a listing of states that accept QAS hours.
FIELD OF STUDY:	Accounting
EXPIRATION DATE:	Postmark by December 31, 2010
KNOWLEDGE LEVEL:	Basic

Learning Objectives:**Lesson 1—Accounting and Review Services Reporting Standards**

Completion of this lesson will enable you to:

- Identify and apply reporting standards specific to compilation engagements.
- Identify and apply reporting standards specific to SSARS review engagements.
- Identify and apply reporting standards applicable to both SSARS compilations and reviews.

Lesson 2—Quality Control Standards

Completion of this lesson will enable you to:

- Appropriately apply Statements on Quality Control Standards (SQCS) to services performed in a firm's accounting and auditing practice and administer a quality control system in order to have reasonable assurance that the system's objectives are achieved.
- Identify quality control policies and procedures.

TO COMPLETE THIS LEARNING PROCESS:

Send your completed **Examination for CPE Credit Answer Sheet, Course Evaluation**, and payment to:

**Thomson Reuters
Tax & Accounting—R&G
GASTG092 Self-study CPE
36786 Treasury Center
Chicago, IL 60694-6700**

See the test instructions included with the course materials for more information.

ADMINISTRATIVE POLICIES:

For information regarding refunds and complaint resolutions, dial (800) 323-8724 for Customer Service and your questions or concerns will be promptly addressed.

Lesson 1: Accounting and Review Services Reporting Standards

INTRODUCTION

This lesson discusses reporting guidance, reporting standards specific to compilation engagements and SSARS review engagements, as well as several reporting standards applicable to both SSARS compilations and reviews.

Learning Objectives:

Completion of this lesson will enable you to:

- Identify and apply reporting standards specific to compilation engagements.
- Identify and apply reporting standards specific to SSARS review engagements.
- Identify and apply reporting standards applicable to both SSARS compilations and reviews.

COMPILATION REPORTS

Standard Compilation Report

Report Contents. The basic elements of a standard compilation report include the following: (AR 100.13)

- A statement that a compilation has been performed in accordance with SSARS issued by the AICPA.
- A statement that a compilation is limited to presenting in the form of financial statements information that is the representation of management (owners).
- A statement that the financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them.
- The manual, stamped, electronic, or typed signature of the accounting firm or accountant, as appropriate.
- A date, which should be the date of completion of the compilation.

The report should not describe any other procedures the accountant might have performed before or during the compilation engagement.

Illustrative Standard Compilation Report. The following is the standard compilation report on financial statements prepared in accordance with generally accepted accounting principles: (AR 100.20)

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

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

Compilation Report on One Financial Statement. An accountant may issue a compilation report on just one financial statement, such as a balance sheet. (AR 100.18)

Compilation Report When Financial Statements Omit Substantially All Disclosures

SSARS allow an accountant to compile and report on financial statements that omit substantially all disclosures that GAAP (or an OCBOA) requires to appear in notes to the financial statements or in the body of the statements as long as the omission is—(AR 100.19)

- a. not, to the accountant's knowledge, intended to mislead those who might reasonably be expected to use the financial statements, and
- b. clearly indicated in the compilation report.

The following paragraph is added to the standard compilation report when GAAP financial statements omit substantially all disclosures: (AR 100.21)

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

Selected Disclosures Presented in Compiled Financial Statements. If only a few matters are to be disclosed in notes to the financial statements, the disclosures should be labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included." (AR 100.19)

Compilation Report on OCBOA Financial Statements

When the notes to OCBOA financial statements disclose the basis of presentation and how it differs from GAAP, the standard compilation report should be modified only to appropriately identify the OCBOA financial statements. The following illustrates a compilation report on cash basis financial statements that disclose the OCBOA in notes: (AR 100.17)

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

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

Compilation Report When OCBOA Statements Do Not Disclose the Accounting Basis. If compiled OCBOA financial statements, including statements that omit substantially all disclosures, do not disclose the basis of accounting in a note or on the face of the statements, the compilation report should disclose it. (AR 100.20) The following is an example of a compilation report on tax basis statements that omit substantially all disclosures and do not disclose the tax basis: (AR 100.22)

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

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying

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

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

Compilation Report When the Accountant Is Not Independent

An accountant does not need to be independent of an entity in order to compile its financial statements. However, the compilation report should disclose the lack of independence, but not the reason for the lack, by including the following sentence as the last paragraph of the compilation report: (AR 100.23)

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

Compilation Report on Management-use-only Financial Statements

An accountant is permitted, but not required, to issue a compilation report on management-use-only financial statements. An accountant may provide management-use-only financial statements without issuing a compilation report if the statements are not reasonably expected to be used by third parties. In lieu of a compilation report, an accountant may issue an engagement letter, preferably signed by management, containing specific communications. In addition, each page of the unaudited statements should include a use restriction, such as "Restricted for Management's Use Only" or "Solely for the information and use by the management of [Name of Entity] and not intended to be and should not be used by any other party." (AR 100.24 – 100.26) If the accountant chooses to issue a report, the guidance in this section should be followed.

Compilation Report on Financial Statements in Prescribed Form

SSARS No. 3 (AR 300) allows an accountant to compile and report on financial statements included in a prescribed form that calls for a departure from GAAP or an OCBOA. (AR 300.01) The following definitions apply:

- *Prescribed form.* A prescribed form is "any standard preprinted form designed or adopted by the body to which it is to be submitted, for example, forms used by industry trade associations, credit agencies, banks, and governmental and regulatory bodies other than those concerned with the sale or trading of securities." A form designed or adopted by the entity whose financial statements are to be compiled is not a prescribed form. (AR 300.02)
- *Departure from GAAP or OCBOA.* A departure means that the prescribed form or related instructions specifies a measurement principle not in conformity with GAAP or an OCBOA or fails to request required disclosures.

The following is the standard report on financial statements included in a prescribed form that calls for a GAAP departure: (AR 300.03)

I (We) have compiled the (identification of financial statements, including period covered and name of entity) included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

My (Our) compilation was limited to presenting in the form prescribed by (name of body) information that is the representation of management (owners). I (We) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements (including related disclosures) are presented in accordance with the requirements of (name of body), which differ from generally accepted accounting principles.

Accordingly, these financial statements are not designed for those who are not informed about such differences.

Compilation Report When There Is a GAAP Departure Other Than Departures Called for in the Prescribed Form. The accountant should follow the guidance herein for GAAP departures if he or she becomes aware of the following: (AR 300.04)

- A departure from the requirements of the prescribed form or its instructions.
- A GAAP departure *other than* ones called for in the prescribed form. In this case, the sentence introducing the separate paragraph might state: However, I (we) did become aware of a departure from generally accepted accounting principles that is not called for by the prescribed form or related instructions, as described in the following paragraph.

Compilation Report When a Preprinted Form Does Not Conform with SSARS Requirements. A prescribed form might include a preprinted accountant's report that does not conform with the requirements of SSARS. The accountant should not sign such a report but should attach an appropriate report to the prescribed form. (AR 300.05)

Compilation Report—Prescribed Form Fails to Request Disclosures When Statements for the Same Period Have Been Reviewed. An accountant who has reviewed financial statements that include required disclosures may be asked to compile financial statements for a prescribed form that requires materially the same measurement principles, but does not request the disclosures. When the only difference between the reviewed statements and the compiled statements in the prescribed form is the omission of disclosures, the accountant can issue a compilation report on the statements and refer to the review report. The reference may be added to the second (or a separate) paragraph of the report previously illustrated. The reference might be worded as follows:

These financial statements were compiled by me (us) from financial statements for the same period which I (we) previously reviewed, as indicated in my (our) report dated _____.

If the previous review report was modified or included an emphasis paragraph, the reference should describe or quote the modifications or emphasis paragraph. (AR 9300.02)

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

SSARS No. 13 (AR 110) applies when an accountant is engaged to compile, or issue a compilation report on specified elements, accounts, or items of a financial statement, such as schedules of accounts receivable, rents, or profit participation. The basic components of a compilation report on one or more specified elements, accounts, or items of a financial statement are— (AR 110.10)

- a. A statement that the specified elements, accounts, or items were compiled. If the compilation was performed in conjunction with a compilation of financial statements, the report should include a statement to that effect and provide the date of the report on the financial statements as well as a discussion of any departure from the standard report.
- b. A statement that the compilation was performed in accordance with SSARS issued by the AICPA.
- c. A description of the basis of presentation of the elements, accounts, or items if it is other than GAAP, and a statement that the basis is a presentation other than GAAP.
- d. A statement that a compilation is limited to presenting information that is management's (or owner's) representation.
- e. A statement that the elements, accounts, or items were not audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them.
- f. Signature of the accountant or accounting firm.

- g. Date of the compilation report.

Illustrative Compilation Report on Specified Elements, Accounts, or Items of a Financial Statement. The following is an example of the body of a report on a tax basis schedule of depreciation: (AR 110.12)

I (we) have compiled the accompanying schedule of depreciation—income tax basis of XYZ Company as of December 31, 20XX, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The schedule of depreciation—income tax basis has been prepared on the accounting basis used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting financial information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying schedule of depreciation—income tax basis and, accordingly, do not express an opinion or any other form of assurance on it.

Compilation Report on Pro Forma Financial Information

SSARS No. 14 (AR 120) applies when an accountant is engaged to compile, or issues a compilation report on pro forma financial information. Pro forma financial information shows how a completed or proposed event or transaction might have affected historical financial information. The basic components of a compilation report on pro forma financial information are— (AR 120.13)

- a. Identification of the pro forma financial information.
- b. A statement that the compilation was performed in accordance with SSARS issued by the AICPA.
- c. A reference to the financial statements that were the source for the historical information and a statement about whether those statements were compiled, reviewed, or audited.
- d. A statement that a compilation is limited to presenting information that is management's (or owner's) representation.
- e. A statement that the pro forma financial information was compiled. If the compilation was performed in conjunction with a compilation of financial statements, the report should include a statement to that effect and provide the date of the report on the financial statements as well as a discussion of any departure from the standard report.
- f. A description of the basis of presentation of the pro forma financial information if it is other than GAAP, and a statement that the basis is a presentation other than GAAP.
- g. A statement that the pro forma financial information was not audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on it.
- h. A separate paragraph that explains the objective and limitations of pro forma financial information.
- i. Signature of the accountant or accounting firm.
- j. Date of the compilation report.

Illustrative Compilation Report on Pro Forma Financial Information. The following is an example of the body of a compilation report on pro forma financial information: (AR 120.15)

I (we) have compiled the accompanying pro forma financial information as of and for the year ended December 31, 20XX, reflecting the business combination of the Company and ABC Company in accordance with Statements on Standards for Accounting and Review Services

issued by the American Institute of Certified Public Accountants. The historical condensed financial statements are derived from the historical unaudited financial statements of XYZ Company, which were compiled by me (us), and of ABC Company, which were compiled by another (other) accountant(s).

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

The objective of this pro forma financial information is to show what the significant effects on the historical information might have been had the transaction occurred at an earlier date. However, the pro forma financial information is not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction actually occurred earlier.

Compilation Report on Pro Forma Financial Information—Disclosures Are Omitted. If the pro forma financial information does not include all applicable disclosures, the report should include the following paragraph at the end of the accountant's report: (AR 120.15)

Management has elected to omit all of the disclosures ordinarily included in pro forma financial information. The omitted disclosures might have added significant information regarding the company's pro forma financial position and results of operations. Accordingly, this pro forma financial information is not designed for those who are not informed about such matters.

If the summary of significant assumptions is not presented for compiled pro forma financial information, the accountant is precluded from issuing a report.

REVIEW REPORTS

Standard Review Report

Report Contents. The basic elements of a SSARS review report include the following: (AR 100.46)

- A statement that a review has been performed in accordance with SSARS issued by the AICPA.
- A statement that all information in the financial statements is the representation of the entity's management (owners).
- A statement that a review consists principally of inquiries of company personnel and analytical procedures applied to financial data.
- 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, accordingly, no such opinion is expressed.
- A statement that the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with GAAP, other than modifications, if any, indicated in the report.
- The manual, stamped, electronic, or typed signature of the accounting firm or accountant, as appropriate.
- A date, which should be the date of completion of the review procedures.

The report should not describe any other procedures, including compilation procedures, that the accountant might have performed before or during the review engagement.

Illustrative Standard Review Report. The following is the standard review report on financial statements prepared in accordance with generally accepted accounting principles: (AR 100.49)

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

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

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

Review Report on One Financial Statement. An accountant may issue a review report on just one financial statement, such as just a balance sheet, as long as the scope of the inquiry and analytical procedures has not been restricted. (AR 100.52)

Review Report on OCBOA Financial Statements

When the notes to OCBOA financial statements disclose the basis of presentation and how it differs from GAAP, the standard review report should be used, modified only to appropriately identify the OCBOA financial statements. The following illustrates a review report on income tax basis financial statements that disclose the OCBOA in notes: (AR 100.50)

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

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

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

Independence Requirement for a Review Report

An accountant must be independent to issue a review report. (AR 100.53)

Omission of Disclosures in Reviewed Financial Statements

An accountant may compile and report on financial statements that omit substantially all disclosures required by GAAP. In contrast, an accountant ordinarily would not accept an engagement to review financial statements that omit substantially all disclosures. (AR 9100.02) If the accountant has already begun a review engagement when the client declines to include substantially all disclosures in the financial statements, the accountant should do the following: (AR 9100.02)

- a. include the omitted disclosures in the review report, or

- b. specifically identify the nature of the omitted disclosures in the review report if the information for them has not been determined by management or is not known as a result of the accountant's procedures. In such circumstances, the accountant is not required to determine the specific information that should be disclosed.

Review Report When Other Accountants Are Involved

One of the required review procedures, is to obtain reports of other accountants who have been engaged to audit or review the statements of any significant components, subsidiaries, or other investees of the entity. If the accountant's review report refers to the other accountants, it should indicate the magnitude of the portion of the financial statements the other accountants audited or reviewed. (AR 100.38d, footnote 22)

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

1. Which of the following is one of the basic elements of a standard compilation report?
 - a. A statement that a compilation has been performed in accordance with GAAP.
 - b. The date the compilation report was initiated.
 - c. The signature of the accounting firm or accountant, as applicable.
 - d. A statement that the accountant expresses limited assurance on the financial statements.
2. A standard compilation report should include all of the following elements **except**:
 - a. A description of all procedures the accountant may have performed prior to or during the compilation engagement.
 - b. A statement that a compilation is presenting information provided by management in the form of financial statements.
 - c. A statement that financial statements have not been audited or reviewed.
3. Which of the following statements regarding compilation reports is correct?
 - a. When the notes to OCBOA financial statements disclose the basis of presentation and differences from GAAP, the standard compilation report does not need to be modified.
 - b. The compilation report does not need to make disclosure when compiled OCBOA financial statements do not disclose the basis of accounting in a note or on the face of the statements.
 - c. An accountant can compile and report on financial statements included in a prescribed form that calls for a departure from GAAP or an OCBOA.
 - d. An accountant must be independent of an entity in order to compile its financial statements.
4. The accountant is not required to follow the guidance for GAAP departures in which of the following circumstances?
 - a. A departure from the requirements of the prescribed form.
 - b. A departure from the requirements of the instructions for the prescribed form.
 - c. A prescribed form that includes a preprinted accountant's report that conforms with SSARS requirements.
5. Which of the following basic components is unique to compilation reports on pro forma financial information?
 - a. A statement that the compilation was performed in accordance with SSARS issued by the AICPA.
 - b. A reference to the financial statements that were the source for the historical information and a statement about whether those statements were compiled, reviewed, or audited.
 - c. A statement that a compilation is limited to presenting information that is management's (or owner's) representation.
 - d. Signature of the accountant or accounting firm.

6. The basic elements of a SSARS review report include all of the following **except**:
- a. A statement describing compilation procedures that the accountant may have performed during the review engagement.
 - b. A statement that a review consists primarily of inquiries of company personnel and analytical procedures applied to financial data.
 - c. A statement that a review is substantially less in scope than an audit, the objective of which is to express an opinion regarding the financial statements as a whole and, as such, no such opinion is expressed.
 - d. A statement that the accountant is not aware of any material modifications that should be made to the financial statements so they can be in conformity with GAAP, except for modifications that may exist, indicated in the report.
7. After the accountant has already begun a review engagement, the client declines to include for the most part all disclosures in the financial statements. Which of the following actions should the accountant take?
- a. Do not include the omitted disclosures in the review report.
 - b. Identify the nature of the omitted disclosures in a follow up report.
 - c. In certain circumstances, the accountant is not required to determine the information that should be disclosed.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

1. Which of the following is one of the basic elements of a standard compilation report? **(Page 79)**
 - a. A statement that a compilation has been performed in accordance with GAAP. [This answer is incorrect. One of the basic elements of a standard compilation report is a statement that a compilation has been performed in accordance with SSARS per AR 100.13.]
 - b. The date the compilation report was initiated. [This answer is incorrect. The date of *completion* of the compilation report is one of the basic elements per AR 100.13.]
 - c. **The signature of the accounting firm or accountant, as applicable. [This answer is correct. The manual, typed, stamped, or electronic signature of the accounting firm or accountant is one of the basic elements of a standard compilation report.]**
 - d. A statement that the accountant expresses limited assurance on the financial statements. [This answer is incorrect. The report should include a statement that the financial statements have not been audited or reviewed, and that the accountant does not express an opinion or any other form of assurance on them.]
2. A standard compilation report should include all of the following elements **except: (Page 79)**
 - a. **A description of all procedures the accountant may have performed prior to or during the compilation engagement. [This answer is correct. The standard compilation report should *not* describe all procedures the accountant may have performed before or during the compilation engagement.]**
 - b. A statement that a compilation is presenting information provided by management in the form of financial statements. [This answer is incorrect. A standard compilation report should include a statement that a compilation is limited to presenting as financial statements information that is the representation of management or owners per AR 100.13.]
 - c. A statement that financial statements have not been audited or reviewed. [This answer is incorrect. A statement that the financial statements have not been audited or reviewed should be included as one of the elements included in a standard compilation report per AR 100.13.]
3. Which of the following statements regarding compilation reports is correct? **(Page 81)**
 - a. When the notes to OCBOA financial statements disclose the basis of presentation and differences from GAAP, the standard compilation report does not need to be modified. [This answer is incorrect. When the notes to OCBOA financial statements disclose the basis of presentation and differences from GAAP, the standard compilation report should be modified only to properly identify the OCBOA financial statements per AR 100.23.]
 - b. The compilation report does not need to make disclosure when compiled OCBOA financial statements do not disclose the basis of accounting in a note or on the face of the statements. [This answer is incorrect. If compiled OCBOA financial statements do not disclose the basis of accounting in a note or on the face of the statements, it should be disclosed in the compilation report per AR 100.23.]
 - c. **An accountant can compile and report on financial statements included in a prescribed form that calls for a departure from GAAP or an OCBOA. [This answer is correct. As prescribed in SSARS No. 3, an accountant can compile and report on financial statements included in a prescribed form that calls for a departure from GAAP or an OCBOA.]**

- d. An accountant must be independent of an entity in order to compile its financial statements. [This answer is incorrect. As cited in AR 100.23, an accountant need not be independent of an entity to compile its financial statements, but the compilation report should disclose the lack of independence. The report does not need to give the reason why.]
4. The accountant is not required to follow the guidance for GAAP departures in which of the following circumstances? **(Page 82)**
- a. A departure from the requirements of the prescribed form. [This answer is incorrect. The accountant should follow the guidance for GAAP departures if there is a departure from the requirements of the *prescribed form* per AR 300.04.]
- b. A departure from the requirements of the instructions for the prescribed form. [This answer is incorrect. If there is a departure from the requirements of the *instructions* for the prescribed form, the accountant should follow the guidance for GAAP departures per AR 300.04.]
- c. **A prescribed form that includes a preprinted accountant's report that conforms with SSARS requirements. [This answer is correct. The accountant need not follow the guidance for GAAP departures for a prescribed form that includes a preprinted accountant's report that does conform with SSARS requirements per AR 300.04.]**
5. Which of the following basic components is unique to compilation reports on pro forma financial information? **(Page 83)**
- a. A statement that the compilation was performed in accordance with SSARS issued by the AICPA. [This answer is incorrect. A statement that the compilation was performed in accordance with SSARS issued by the AICPA is a basic component for compilation reports on specified elements, accounts, or items of a financial statement as well as compilation reports on pro forma financial information per AR 120.13.]
- b. **A reference to the financial statements that were used for the historical information and a statement about whether those statements were audited, reviewed, or compiled. [This answer is correct. A reference to the financial statements that were used for the historical information and a statement about whether those statements were audited, reviewed, or compiled is a basic component unique to compilation reports on pro forma financial information per AR 120.13.]**
- c. A statement that a compilation is limited to presenting information that is management's (or owner's) representation. [This answer is incorrect. Compilation reports on specified elements, accounts, or items of a financial statement also contain as a basic element a statement that a compilation is limited to presenting information that is management's (or owner's) representation per AR 120.13.]
- d. Signature of the accountant or accounting firm. [This answer is incorrect. The signature of the accountant or accounting firm is a basic component of all compilation reports per AR 120.13.]
6. The basic elements of a SSARS review report include all of the following **except: (Page 84)**
- a. **A statement describing compilation procedures that the accountant may have performed during the review engagement. [This answer is correct. A SSARS review report should not include compilation procedures that the accountant may have performed either before or during the review engagement per AR 100.46.]**
- b. A statement that a review consists primarily of inquiries of company personnel and analytical procedures applied to financial data. [This answer is incorrect. A statement that a review consists primarily of inquiries of company personnel and analytical procedures applied to financial data is one of the basic elements of a SSARS review report per AR 100.46.]
- c. A statement that a review is substantially less in scope than an audit, the objective of which is to express an opinion regarding the financial statements as a whole and, as such, no such opinion is expressed. [This

answer is incorrect. One of a number of basic elements of a SSARS review report is a statement that a review is substantially less in scope than an audit, the objective of which is to express an opinion regarding the financial statements as a whole and, as such, no such opinion is expressed per AR 100.46.]

- d. A statement that the accountant is not aware of any material modifications that should be made to the financial statements so they can be in conformity with GAAP, except for modifications that may exist, indicated in the report. [This answer is incorrect. There are several basic elements of a SSARS review report, an example being a statement that the accountant is not aware of any material modifications that should be made to the financial statements so they can be in conformity with GAAP, except for modifications that may exist, indicated in the report per AR 100.46.]
7. After the accountant has already begun a review engagement, the client declines to include for the most part all disclosures in the financial statements. Which of the following actions should the accountant take?
(Page 85)
- a. Do not include the omitted disclosures in the review report. [This answer is incorrect. If the accountant has already begun a review engagement when the client declines to include for the most part all disclosures in the financial statements, the accountant should *include* the omitted disclosures in the review report per AR 9100.02.]
 - b. Identify the nature of the omitted disclosures in a follow up report. [This answer is incorrect. The accountant should identify the nature of the omitted disclosures in *the review report* per AR 9100.02.]
 - c. **In certain circumstances, the accountant is not required to determine the information that should be disclosed.** [This answer is correct. If the information for the omitted disclosures has not been determined by management or is not known as a result of the procedures performed by the accountant, the accountant is not required to determine the specific information that should be disclosed per AR 9100.02.]

REPORTING GUIDANCE APPLICABLE TO COMPILATIONS AND REVIEWS

Reporting Responsibility

Accountant's Name Is Used in a Document Containing Unaudited Financial Statements or a Client-prepared Document. An accountant should not consent to the use of his or her name in a document or written communication containing unaudited financial statements of a nonissuer unless— (AR 100.03)

- a. the accountant has compiled or reviewed the statements in accordance with SSARS, or
- b. the financial statements are accompanied by an indication that the accountant has not compiled or reviewed the statements and assumes no responsibility for them.

If the accountant becomes aware that his or her name has been used improperly in a client-prepared document containing unaudited financial statements, he or she should advise the client that the use is improper and consider other appropriate actions, including consultation with his or her attorney.

Reporting on the Highest Level of Service Provided. An accountant might provide more than one level of service for a client. For example, the accountant might compile financial statements to be audited or reviewed. In such a case, the accountant should issue the report appropriate for the highest level of service provided. (AR 100.02) Thus, the accountant who both compiles and reviews statements he or she was engaged to review would need to issue only a review report. (AR 9100.07) The following is other guidance relevant when more than one service is provided:

- The accountant who provides other accounting services along with a compilation is not required to (but may, if he or she wishes) evaluate the other services to decide whether to “upgrade” the report and issue a review report instead. The accountant may discuss the matter with the client and may decide to revise the understanding about the nature of the services to be provided. (AR 9100.07–.08)
- An accountant may be engaged to compile financial statements each month and also review the financial statements for a quarterly or annual period ending on one of the month-ends. In such a case, the accountant may issue a compilation report each month and also issue a review report on the statements for the quarterly or annual period ending on the same date as one of the monthly statements. The appropriate compilation or review standards would apply. (AR 9100.09–.10)
- An accountant who is engaged to compile or review statements may also perform a higher level of service with respect to the same statements. For example, an accountant who has reviewed financial statements may later be engaged to audit the same statements. (AR 9100.11–.12)

Reporting When There Are GAAP Departures

An accountant who is engaged to compile or review financial statements may become aware of a GAAP or OCBOA departure (which includes a disclosure inadequacy) that is material to the financial statements. The accountant should consider whether modifying the compilation or review report would be adequate to disclose the departure and should either modify the report or withdraw from the engagement if the financial statements are not revised. (AR 100.56 and 100.58)

Report Modification. An accountant who decides that report modification is appropriate when there is a material GAAP departure should disclose the departure in a separate paragraph. The effects of the departure on the financial statements should be disclosed if the effects have been determined by management or are known as a result of the accountant's procedures. If management has not determined the effects, the report should state that such determination has not been made. (AR 100.57)

Illustrative Compilation Report Modified for a GAAP Departure. The following is an example of a compilation report modified for a GAAP departure: (AR 100.57)

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then

ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

(Separate paragraph)

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

or

A statement of cash flows for the year ended December 31, 20XX, has not been presented. Generally accepted accounting principles require that such a statement be presented when financial statements purport to present financial position and results of operations. [In this circumstance, the first paragraph of the report should omit the reference to a statement of cash flows.]

Illustrative Review Report Modified for a GAAP Departure. The following is an example of a review report modified for a GAAP departure: (AR 100.57)

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

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

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

(Separate paragraph)

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

or

As disclosed in Note X to the financial statements, the Company has adopted (description of newly adopted method), whereas it previously used (description of previous method). Although the (description of newly adopted method) is in conformity with generally accepted accounting

principles, the company does not appear to have reasonable justification for making a change as required by Financial Accounting Standards Board *Accounting Standards Codification* 250, *Accounting Changes and Error Corrections*.

Emphasis Paragraph for a GAAP Departure. As seen in the illustrative modified reports in the preceding paragraphs, the separate paragraph describes the departure but does not state that the financial statements are not in conformity with GAAP (or an OCBOA). A SSARS interpretation prohibits such a statement as tantamount to an expression of an adverse opinion, which neither compilation nor review reports provide. (AR 9100.24) However, the report may include a separate emphasis paragraph following the other report modifications to emphasize the limitations of the financial statements. Such a paragraph might be added based on the accountant's assessment of the dollar magnitude of the departure, its significance to the entity, the pervasiveness of its impact, and whether the effects of the departures were not disclosed. The following is an example of such a paragraph: (AR 9100.25)

Because the significance and pervasiveness of the matters discussed above makes it difficult to assess their impact on the financial statements taken as a whole, users of these financial statements should recognize that they might reach different conclusions about the Company's financial position, results of operations, and cash flows if they had access to revised financial statements prepared in conformity with generally accepted accounting principles.

Such a paragraph does not substitute for disclosure of the specific departures or the effects when they have been determined by management or are known as a result of the accountant's procedures. (AR 9100.26)

Report When There Are GAAP Departures That Keep the Financial Statements from Being Misleading.

Rule 203 of the AICPA *Code of Professional Conduct* prohibits a report from stating that the accountant is not aware of any material modifications that should be made to financial statements in order for them to be in conformity with GAAP if the statements contain a departure from an accounting principle promulgated by a body authorized to establish accounting principles. Rule 203 provides an exception from this prohibition if, due to unusual circumstances, the departure is necessary to keep the financial statements from being misleading. In such a case, the review report should describe the departure, its approximate effects, and the reasons why compliance with the accounting principle would result in a misleading financial statement. The review report should include these disclosures in a separate paragraph or paragraphs. The review report would not be otherwise modified because of the departure in question. Rule 203 does not apply to compilation reports because they do not express any assurance. (AR 9100.74–.75)

Withdrawal from an Engagement because of a GAAP Departure. Ordinarily, report modification should be adequate to disclose deficiencies in the financial statements taken as a whole. However, if the accountant decides that report modification will not be adequate, he or she should withdraw from a compilation or review engagement and provide no further services with respect to the statements. The accountant may wish to consult with his or her legal counsel. (AR 100.58)

Emphasis Paragraphs

An accountant may include a separate paragraph in a SSARS compilation or review report to emphasize a matter concerning the financial statements. Emphasis paragraphs are not required. Instead, they are used at the accountant's discretion to call attention to matters disclosed in the notes to the financial statements such as uncertainties, related-party transactions, unusually important subsequent events, or accounting matters (other than those involving a change in accounting principles) that affect comparability. (AR 100.54)

Because emphasis paragraphs are used to call attention to matters disclosed in the financial statements, they may not be used in a compilation report on financial statements that omit substantially all disclosures unless that matter is disclosed in the financial statements. (AR 100.55) Footnote 26 to AR 100.55 further clarifies that if management has presented selected information (but omitted substantially all disclosures), the accountant's report may include an emphasis paragraph if the matter discussed in the emphasis paragraph is disclosed in the selected information. The AICPA *Compilation and Review Alert—2003/2004* presented the following guidelines for emphasis paragraphs:

- They should not introduce new information about the financial statements but only emphasize a matter disclosed in the statements.

- They should not contain information about procedures the accountant has performed or not performed.
- They should not present the accountant's conclusions or opinions.
- If the financial statements are deficient or lack a needed disclosure and the financial statements are not corrected by the client, the accountant must include a separate paragraph in the report stating the financial statements contain a GAAP (or OCBOA) departure. This required paragraph is different from a voluntary emphasis paragraph.
- If the accountant includes an emphasis paragraph highlighting a going-concern disclosure in the financial statements, the accountant should not use the term *substantial doubt* in the paragraph.

Inconsistency in Accounting Principle. Normally, a SSARS compilation or review report would not be modified because of an inconsistency in application of accounting principles if the financial statements appropriately disclose the inconsistency. The accountant is not, however, prohibited from emphasizing the matter in a separate paragraph. (AR 100.57, footnote 30)

Uncertainty. Normally, a SSARS compilation or review report would not be modified because of an uncertainty (including a going-concern uncertainty) if the financial statements appropriately disclose the uncertainty. However, the accountant is not prohibited from emphasizing the matter in a separate paragraph. (AR 100.57, footnote 30)

Going-concern Uncertainty. As mentioned in the preceding paragraph, a SSARS compilation or review report normally would not be modified because of an uncertainty if the financial statements adequately disclose the uncertainty. AR 100.70 states that the accountant should consider the adequacy of management's disclosure of the uncertainty. If it has not been disclosed or if the accountant is concerned about the adequacy of management's disclosure, the accountant should follow the guidance for GAAP departures discussed above. The accountant may, however, include a separate emphasis paragraph about the going-concern uncertainty if the disclosure is considered to be adequate. The following is an example of such a paragraph: (AR 9100.123)

As discussed in Note X, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Company be unable to continue as a going concern.

Material Uncertainty Other Than Going Concern. If the accountant becomes aware of a material uncertainty other than a going concern uncertainty (for example, the client is unable to evaluate the outcome of pending or threatened litigation), the accountant should follow the guidance discussed in paragraph 25.XXX. The following is an example of an emphasis paragraph that the accountant might use if management's disclosure is in accordance with GAAP but the accountant wants to emphasize the uncertainty: (AR 9100.127)

As discussed in Note X, the Company is currently named in a legal action. The Company has determined that it is not possible to predict the eventual outcome of the legal action but has determined that the resolution of the action will not result in an adverse judgment that would materially affect the financial statements. Accordingly, the accompanying financial statements do not include any adjustments related to the legal action under FASB ASC 450, *Contingencies*.

Uncertainty in Compiled Statements That Omit Substantially All Disclosures. The report on compiled financial statements that omit substantially all disclosures required by GAAP should indicate the omission. This guidance does not change if there is an uncertainty. Thus, when substantially all disclosures are omitted, there is no requirement to disclose the uncertainty. The indication in the report that substantially all disclosures have been omitted is adequate warning of the limitations of the financial statements even when there is an uncertainty. (AR 9100.128–.129)

Subsequent Events

A SSARS compilation or review report normally would not be modified because of a subsequent event that has a material effect on the financial statements if the statements adequately disclose the matter. The accountant

should consider the adequacy of management's accounting for and disclosure of the possible financial statement effects. If the accountant determines that the accounting and disclosure are not adequate, the guidance concerning report modification because of a GAAP departure discussed above applies. (AR 100.75)

Occasionally, a subsequent event has such a material impact on the entity that the accountant may choose to include in his or her compilation or review report an explanatory paragraph to emphasize the event and its effects. Such an emphasis of matter paragraph may be added, at the accountant's discretion, provided that the matter is disclosed in the financial statements.

Restricting the Use of a Report

An accountant's report can be either a *general use* report or a *restricted use* report. Restricted use reports are intended only for one or more specified parties. All other reports are considered to be general use. Normally, a report on financial statements prepared in conformity with GAAP or an OCBOA is a general use report. (AR 100.59–.60)

The need to restrict a report depends on a number of factors, including the purpose of the report and the potential for it to be misunderstood when taken out of context. A report should be restricted when the subject matter of the report or presentation is based on measurement or disclosure criteria contained in regulatory provisions or contractual agreements that are not GAAP or an OCBOA. (AR 100.60–.61)

Combined Reports. Accountants may issue a combined report that covers both subject matter required to be restricted and subject matter that is not required to be restricted. In this situation, the use of the combined report should be restricted to the specified parties. (AR 100.63)

Separate Restricted Use and General Use Reports in the Same Document. If an accountant is required by law or regulation to issue a separate restricted use report in a document that also contains a general use report, the restricted use report remains restricted and the general use report remains unrestricted. (AR 100.64)

Adding Other Specified Parties. An accountant may be asked to add other specified parties during or after completion of the compilation or review engagement. If the accountant agrees to add other parties, the accountant should obtain affirmative acknowledgement, preferably in writing, from the other parties about their understanding of the nature of the engagement, the measurement or disclosure criteria used, and the accountant's report. If the other parties are added after the accountant has issued his or her report, the accountant may reissue the report. In this situation, the date of the report should not be changed. Alternatively, the affirmative acknowledgement could be obtained and should state that no procedures have been performed subsequent to the date of the report. (AR 100.66)

Report Language. A restricted use report should (a) indicate that the report is intended solely for the information and use of the specified parties, (b) identify the specified parties, and (c) state that the report is not intended to be and should not be used by anyone other than the specified parties. (AR 100.68)

The report language restricts the use, not the distribution, of the report. Therefore, the accountant should consider informing the client that restricted use reports are not intended for distribution to nonspecified parties. The accountant, however, is not responsible for controlling a client's distribution of restricted use reports. (AR 100.67)

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

8. If the accountant discovers that his or her name has been used improperly in a client—prepared document containing unaudited financial statements, he or she should:
 - a. Not be concerned unless this has happened repeatedly in the past.
 - b. Contact the client and ask that all measures be taken to prevent a repeat occurrence.
 - c. Immediately file a law suit to ensure that the client will not repeat this in the future.
 - d. Withdraw from the engagement.
9. If an accountant both compiles and reviews statements he or she was engaged to review, which of the following reports should be issued?
 - a. Compilation report.
 - b. Review report.
 - c. Both a compilation report and a review report.
 - d. A report that combines the information from the compilation and the review.
10. Altarus CPA Firm is engaged to issue a review report on Lomas, Inc, a nonpublic company. The staff accountant has discovered that the financial statements contain a material departure from GAAP and that if the financial statements are modified for the GAAP departure that they will be misleading. How should the Altarus Firm handle this information?
 - a. The firm should issue a report stating they are not aware of any material modifications that should be made to the financial statements.
 - b. The firm should issue a report describing the departure, its approximate effects, and the reasons why compliance with GAAP would result in misleading financial statements.
 - c. The firm is precluded from issuing a report since the financial statements contain a material departure from GAAP.
 - d. The firm should issue financial statements that conform with GAAP.
11. Which of the following accurately reflects actions that result from an uncertainty?
 - a. A SSARS compilation report would normally be modified because of an uncertainty, even if the financial statements properly disclose the uncertainty.
 - b. A SSARS review report is always modified because of an uncertainty regardless of whether or not the financial statements properly disclose the uncertainty.
 - c. The report on compiled financial statements that omit substantially all disclosures required by GAAP does not need to indicate the omission.
 - d. The accountant can emphasize in a separate paragraph of a SSARS compilation or review report an uncertainty, even if the financial statements properly disclose the uncertainty.

12. Which of the following is unrelated to a restricted use report?
- a. It should indicate that it is intended exclusively for the information and use of the specified parties.
 - b. It should identify the specified parties for whose use it is intended.
 - c. It should state that it is not intended for and should not be used by anyone other than the specified parties.
 - d. The report language restricts the distribution of the report, but not its use.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

8. If the accountant discovers that his or her name has been used improperly in a client-prepared document containing unaudited financial statements, he or she should: **(Page 92)**
 - a. Not be concerned unless this has happened repeatedly in the past. [This answer is incorrect. In accordance with AR 9100.03, the accountant should be concerned and should not ignore the improper use of his or her name.]
 - b. Contact the client and ask that all measures be taken to prevent a repeat occurrence. [This answer is correct. The accountant should contact the client and advise them that use of his or her name was improper and consider contacting legal counsel.]**
 - c. Immediately file a law suit to ensure that the client will not repeat this in the future. [This answer is incorrect. Filing a law suit should not be the first course of action to pursue. Such action should only be taken if all other efforts to resolve the issue fail.]
 - d. Withdraw from the engagement. [This answer is incorrect. It is not necessary for the accountant to withdraw from the engagement. This problem can be resolved by means less drastic than withdrawal.]
9. If an accountant both compiles and reviews statements he or she was engaged to review, which of the following reports should be issued? **(Page 92)**
 - a. Compilation report. [This answer is incorrect. If an accountant both compiles and reviews statements he or she was engaged to review, a compilation report should not be issued per AR 9100.09 – .10.]
 - b. Review report. [This answer is correct. If an accountant both compiles and reviews statements he or she was engaged to review, he or she should issue the report for the highest level of service that was provided. Therefore, only a review report should be issued per AR 9100.09 – .10.]**
 - c. Both a compilation report and a review report. [This answer is incorrect. If an accountant both compiles and reviews statements he or she was engaged to review, two separate reports are not required per AR 9100.07 – .08.]
 - d. Another report that combines the information from the compilation and the review. [This answer is incorrect. An accountant should *not* combine the information from the compilation and the review in order to issue a separate report combining the information from the two actions per AR 9100.07.]
10. Altarus CPA Firm is engaged to issue a review report on Lomas, Inc, a nonpublic company. The staff accountant has discovered that the financial statements contain a material departure from GAAP and that if the financial statements are modified for the GAAP departure that they will be misleading. How should the Altarus Firm handle this information? **(Page 94)**
 - a. The firm should issue a report stating they are not aware of any material modifications that should be made to the financial statements. [This answer is incorrect. Per Rule 203 of the *AICPA Code of Professional Conduct*, a firm is prohibited from issuing a report stating that the accountant is not aware of any material modifications that should be made to financial statements if the statements contain a departure from GAAP.]
 - b. The firm should issue a report describing the departure, its approximate effects, and the reasons why compliance with GAAP would result in misleading financial statements. [This answer is correct. Rule 203 contains an exception when, under unusual circumstances, a GAAP departure is necessary to prevent the financial statements from being misleading. This exception allows the firm to issue a report describing the departure, its approximate effects, and the reasons why compliance with GAAP would result in misleading financial statements.]**

- c. The firm is precluded from issuing a report since the financial statements contain a material departure from GAAP. [This answer is incorrect. Rule 203 of the *AICPA Code of Professional Conduct*, includes provisions allowing financial statements to be reported upon and issued when they contain a departure from accounting principles promulgated by body authorized to establish accounting principles.]
- d. The firm should issue financial statements that conform with GAAP. [This answer is incorrect. One of the basic tenets of preparing reports on financial statements whether they be a compilation, review or audit report, is that the management of the company for whom the financial statements are prepared is responsible for the contents of the financial statements. The firm would be remiss in their role as accountants if they issued financial statements in conformance with GAAP.]

11. Which of the following accurately reflects actions that result from an uncertainty? **(Page 95)**

- a. A SSARS compilation report would normally be modified because of an uncertainty, even if the financial statements properly disclose the uncertainty. [This answer is incorrect. A SSARS compilation report would normally *not* be modified because of an uncertainty, even if the financial statements properly disclose the uncertainty per AR 100.57.]
- b. A SSARS review report is always modified because of an uncertainty regardless of whether or not the financial statements properly disclose the uncertainty. [This answer is incorrect. Even if the financial statements properly disclose the uncertainty, a SSARS review report would normally *not* be modified per AR 100.57.]
- c. The report on compiled financial statements that omit substantially all disclosures required by GAAP does not need to indicate the omission. [This answer is incorrect. The report on compiled financial statements that omit substantially all disclosures required by GAAP *should* reflect the omission per AR 100.70. This guidance does not change if there is uncertainty. Thus, when substantially all disclosures are omitted, there is no requirement to disclose the uncertainty.]
- d. **The accountant can emphasize in a separate paragraph of a SSARS compilation or review report an uncertainty, even if the financial statements properly disclose the uncertainty. [This answer is correct. A SSARS compilation or review report would not normally be modified because of an uncertainty, including a going-concern uncertainty, when the financial statements properly disclose the uncertainty but doing so is not prohibited per AR 100.57.]**

12. Which of the following is unrelated to a restricted use report? **(Page 96)**

- a. It should indicate that it is intended exclusively for the information and use of the specified parties. [This answer is incorrect. A restricted use report *should* specify that it is intended only for the information and use of the specified parties per AR 100.68.]
- b. It should identify the specified parties for whose use it is intended. [This answer is incorrect. A restricted use report should identify the parties it is intended for per AR 100.68.]
- c. It should state that it is not intended for and should not be used by anyone other than the specified parties. [This answer is incorrect. A restricted use report should always indicate that it is not intended for or to be used by parties other than the specified parties per AR 100.68.]
- d. **The report language restricts the distribution of the report, but not its use. [This answer is correct. The restricted use report language restricts the use of the report, but not its distribution per AR 100.67.]**

COMPILATION AND REVIEW REPORTS ON OTHER PRESENTATIONS

This section discusses SSARS compilation and review reports on the following types of presentations:

- Supplementary information.
- Tax returns.
- Special-purpose presentations to comply with contractual agreements or regulatory provisions.
- Personal financial statements included in written personal financial plans.

Reporting on Supplementary Information

Compiled Basic Financial Statements Accompanied by Supplementary Information. When an accountant has compiled basic financial statements and other information presented for supplementary analysis purposes, the compilation report should refer to the supplementary information. (AR 100.83)

Reviewed Basic Financial Statements Accompanied by Supplementary Information. When reviewed basic financial statements are accompanied by information presented for supplementary analysis purposes, the accountant should either review or compile the supplementary information and report on it accordingly. In either case, the report on the supplementary information should state that the review of the basic statements was made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made in order for them to be in conformity with GAAP (or OCBOA). The report on the supplementary information should also include one of the following statements, depending on whether the supplementary information has been reviewed or compiled: (AR 100.83)

- *Reviewed supplementary information.* The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and the accountant did not become aware of any material modifications that should be made to such data.
- *Compiled supplementary information.* The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express any opinion or any other form of assurance on such data.

The report on the supplementary information may be a separate report or may be included in the report on the basic statements.

Reporting on Tax Returns

An accountant has no requirement under SSARS to report on financial information contained in a tax return (such as Form 1040 for individuals, Form 1120 for corporations, Form 990 for tax-exempt organizations, or Form 5500 for employee benefit plans), even if the return is subsequently used for a purpose other than submission to taxing authorities. However, an accountant may accept an engagement to issue a compilation or review report on a tax return as long as he or she complies with applicable SSARS performance and reporting standards. (AR 9100.31)

Reporting on Special-purpose Financial Statements

An accountant may compile or review and report on special-purpose financial statements. A SSARS Interpretation at AR 9100.109–.119 describes reporting on the following special-purpose financial statements prepared to comply with contractual agreements or regulatory provisions:

- a. Financial statements prepared in compliance with a contractual agreement or a regulatory provision that does not constitute a complete presentation of the entity's assets, liabilities, revenues, and expenses but otherwise conforms to GAAP or an OCBOA.

- b. A special-purpose financial presentation (either a complete set of financial statements or a single financial statement) prepared on a basis of accounting prescribed in an agreement that is not in conformity with GAAP or an OCBOA.

A contractual agreement is an agreement between the client and one or more third parties other than the accountant. (AR 100.61, footnote 33) If the contractual agreement or regulatory provision requires financial statements in a prescribed form that calls for a departure from GAAP or an OCBOA, the compilation reporting guidance for prescribed forms applies instead of the following guidance.

Report When Agreement Specifies an Incomplete Presentation That Otherwise Conforms with GAAP or an OCBOA. Accountants may be engaged to compile or review a special-purpose financial statement prepared in compliance with a contractual agreement or regulatory provision that does not constitute a complete presentation of the entity's assets, liabilities, revenues, and expenses but is otherwise prepared in conformity with GAAP or an OCBOA. For example, a buy-sell agreement may stipulate a statement of gross assets and liabilities of the entity be measured in conformity with GAAP, but limited to the assets to be sold and liabilities to be transferred pursuant to the agreement. (AR 9100.111)

When an accountant submits special-purpose financial statements prepared on a basis of accounting prescribed in a contractual agreement or a regulatory provision that results in an incomplete presentation but is otherwise in conformity with GAAP or an OCBOA, the accountant's compilation or review report should be modified to include: (AR 9100.112)

- An explanatory paragraph that:
 - Explains what the financial statement is intended to present and provides a reference to the note to the financial statement that describes the basis of presentation.
 - States that the presentation is not intended to be a complete presentation of the entity's assets, liabilities, revenues, and expenses.
- A separate paragraph at the end of the report which states that the report is intended solely for the information and use of those within the entity, the parties to the contract or agreement, the regulatory agency with which the report is being filed, or those with whom the entity is negotiating directly and is not intended to be and should not be used by anyone other than these specified parties. (This paragraph may either identify the specified parties or refer the reader to the specified parties identified elsewhere in the report.)

Illustrative Compilation Report When Presentation is Incomplete but Otherwise Conforms with GAAP or an OCBOA. The following is an example of a compilation report on a special-purpose financial statement prepared on a basis of accounting prescribed in a contractual agreement or regulatory provision that results in an incomplete presentation but is otherwise in conformity with GAAP or an OCBOA: (AR 9100.113)

I (we) have compiled the accompanying statement of net assets sold of XYZ Company as of December 31, 20XX, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

The accompanying statement was prepared for the purpose of presenting the net assets of XYZ Company sold to ABC Company pursuant to the purchase agreement described in Note A, and is not intended to be a complete presentation of XYZ Company's assets and liabilities.

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

Illustrative Review Report When Presentation is Incomplete but Otherwise Conforms with GAAP or an OCBOA. The following is an example of a review report on a special-purpose financial statement prepared on a basis of accounting prescribed in a contractual agreement or regulatory provision that results in an incomplete presentation but is otherwise in conformity with GAAP or an OCBOA: (AR 9100.114)

I (we) have reviewed the accompanying statement of gross income and direct operating expenses of XYZ Company for the year ended December 31, 20XX, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in this statement is the representation of management (owners) of XYZ Company.

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

The accompanying statement was prepared for the purpose of presenting gross income and direct operating expenses of XYZ Company pursuant to the regulatory provision described in Note A, and is not intended to be a complete presentation of XYZ Company's income and expenses.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying statement of gross income and direct operating expenses in order for it to be in conformity with generally accepted accounting principles.

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

Complete Presentation Prepared on a Basis of Accounting Prescribed in an Agreement That Is Not In Conformity with GAAP or an OCBOA. The basis of accounting or presentation called for by an agreement may result in a presentation that is not in conformity with GAAP or an OCBOA. For example, an acquisition agreement may require that certain assets be presented at their appraised values and other assets be presented on a GAAP basis. Financial statements prepared under these circumstances are not considered to be prepared in conformity with an OCBOA because the criteria used to prepare such financial statements do not meet the requirement of "having substantial support." (AR 9100.116)

When an accountant submits special-purpose financial statements prepared on a basis of accounting prescribed in an agreement that results in a presentation that is not in conformity with GAAP or an OCBOA, the accountant's compilation or review report should be modified to include: (AR 9100.117)

- An explanatory paragraph that:
 - Explains what the presentation is intended to present and provides a reference to the note to the financial statements that describes the basis of presentation.
 - States that the financial statements are not intended to be a presentation in conformity with GAAP or an OCBOA.
 - Describes and provides the source of any significant interpretations made by management relating to the provisions of a relevant agreement.
- A separate paragraph at the end of the report which states that the report is intended solely for the information and use of those within the entity, the parties to the contract or agreement, the regulatory agency with which the report is being filed, or those with whom the entity is negotiating directly, and is not intended to be and should not be used by anyone other than these specified parties. (This paragraph may either identify the specified parties or refer the reader to the specified parties identified elsewhere in the report.)

Illustrative Compilation Report when Basis of Accounting Prescribed in an Agreement is Not in Conformity with GAAP or an OCBOA. The following is an example of a compilation report on special-purpose financial statements prepared on a basis of accounting prescribed in an agreement that results in a presentation that is not in conformity with GAAP or an OCBOA: (AR 9100.118)

I (we) have compiled the special-purpose statement of assets and liabilities of XYZ Company as of December 31, 20XX, and the related special-purpose statements of revenue and expenses and of cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

The accompanying special-purpose financial statements were prepared for the purpose of complying with the acquisition agreement between ABC Company and XYZ Company as discussed in Note A, and are not intended to be a presentation in conformity with generally accepted accounting principles.

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

Illustrative Review Report when Basis of Accounting Prescribed in an Agreement is Not in Conformity with GAAP or an OCBOA. The following is an example of a review report on special-purpose financial statements prepared on a basis of accounting prescribed in an agreement that results in a presentation that is not in conformity with GAAP or an OCBOA: (AR 9100.119)

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

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

The accompanying special-purpose financial statements were prepared for the purpose of complying with Section 4 of a loan agreement between DEF Bank and the Company as discussed in Note A, and are not intended to be a presentation in conformity with generally accepted accounting principles.

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

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

Reporting on Personal Financial Statements Included in Written Personal Financial Plans

SSARS No. 6 (AR 600) provides an exemption from SSARS performance requirements and special reporting for unaudited personal financial statements included in written personal financial plans prepared by an accountant. An accountant may elect the exemption or may elect to comply with SSARS for such personal financial planning engagements.

Requirements for Exemption from SSARS Procedures. To qualify for the exemption, all the following requirements must be met: (AR 600.03)

- a. The accountant establishes an understanding, preferably in writing, with the client that the financial statements—
 - (1) Will be used solely to assist the client and the client's advisers in developing the client's personal financial goals and objectives. Financial advisers include insurance brokers, investment advisers, and attorneys. "Developing the client's personal financial goals and objectives" includes implementing the financial plan, such as by identifying specific insurance products, recommending an investment portfolio, drafting a will or trust documents, etc. (AR 9600.03)
 - (2) Will not be used to obtain credit or for any purpose other than developing goals and objectives.
- b. Nothing comes to the accountant's attention during the engagement to cause him or her to believe that item a(2) has been violated.

Required Report if Exemption Is Elected. The accountant who qualifies for and elects the exemption should issue a written report stating that the unaudited financial statements— (AR 600.04)

- a. are designed to help develop the financial plan,
- b. may be incomplete or contain GAAP departures and should not be used to obtain credit or for any purpose other than developing the personal financial plan, and
- c. have not been audited, reviewed, or compiled.

Also, each personal financial statement should include a reference to the accountant's report. (AR 600.06)

Illustrative Report on Financial Statements Included in a Written Financial Plan. The following illustrates a report that meets the requirements in the preceding paragraph: (AR 600.05)

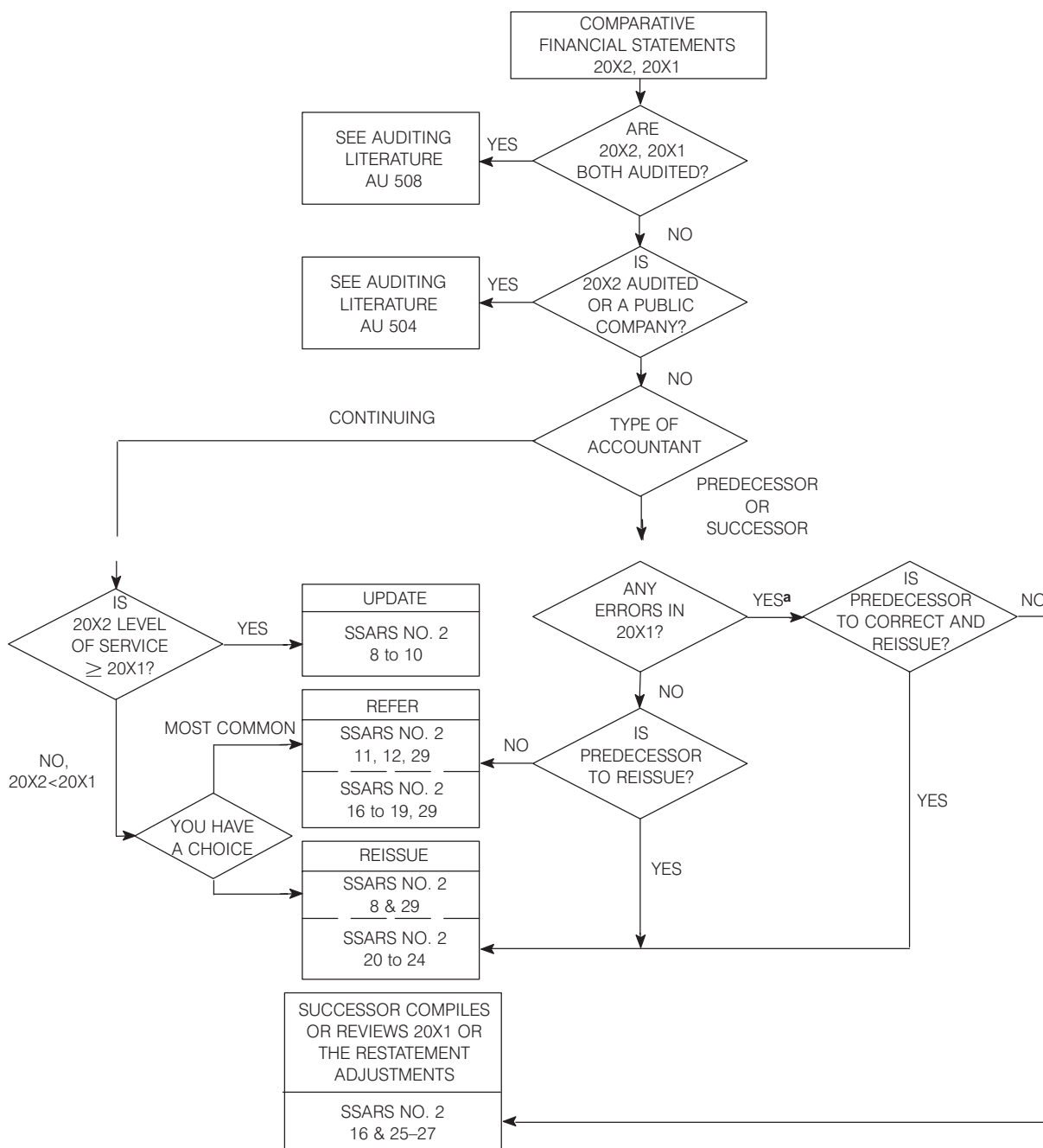
The accompanying Statement of Financial Condition of X, as of December 21, 20XX, was prepared solely to help you develop your personal financial plan. Accordingly, it may be incomplete or contain other departures from generally accepted accounting principles and should not be used to obtain credit or for any purpose other than developing your financial plan. We have not audited, reviewed, or compiled the statement.

COMPILATION AND REVIEW REPORTS ON COMPARATIVE FINANCIAL STATEMENTS

Comparative financial statements are financial statements of two or more periods presented in comparative form. A *continuing accountant* is one who has been engaged to compile, review, or audit and report on the statements of the current period and one or more consecutive preceding periods. The accountant may modify the report on one or more statements for one or more periods while the report on the other statements is unmodified. (AR 200.04) The report(s) on the preceding period(s) may be one of the following: (AR 200.07)

- a. *An updated report.* An updated report is a report issued by a continuing accountant that, based on consideration of any information he or she becomes aware of during the current engagement, either reexpresses his or her previous conclusions or expresses a different conclusion on the financial statements of a preceding period as of the date of the current report.
- b. *A reissued report.* A reissued report is issued after the date of the original report but bears the same date as the original report. If it needs to be revised for the effects of specific events, it is dual-dated with the original date and a later date that applies to the effects of the specific events.

Each page of the comparative statements compiled or reviewed should include a reference such as "See Accountant's Report." (AR 200.06)

Exhibit 1-1**Flowchart on Reporting on Comparative Financial Statements****Note:**

- ^a AR 400.10 requires the successor to ask the client to notify the predecessor when the successor believes that the prior-period financial statements need to be restated.

* * *

Client-prepared Statements

A document containing financial statements on which the accountant has reported might also contain client-prepared financial statements for one or more periods that have not been audited, reviewed, or compiled. In such a case, there should be an indication that the accountant has not audited, reviewed, or compiled the client-prepared financial statements and assumes no responsibility for them. The accountant who becomes aware that such a document uses his or her name but without this indication should advise the client that such use is inappropriate and should consider other appropriate actions such as consulting with his or her attorney. (AR 200.03)

Compiled Statements for Some, but Not All, Periods Omit Substantially All Disclosures

An accountant should not issue a compilation report on comparative financial statements when the statements for some, but not all, periods omit substantially all disclosures. The reason is that the statements are not comparative when some include disclosures and others do not. (AR 200.05)

Report of Continuing Accountant

Same or Higher Level of SSARS Service Performed by Continuing Accountant. A continuing accountant who performs the same or higher level of SSARS service on the current-period financial statements as was performed on the prior-period statements should update his or her report on the prior-period statements. (AR 200.08)

The following is a standard *compilation report of a continuing accountant who compiled both the current-period and prior-period* financial statements: (AR 200.09)

I (We) have compiled the accompanying balance sheets of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

February 1, 20X3

The following is a standard *review report of a continuing accountant who reviewed both the current-period and prior-period* financial statements: (AR 200.09)

I (We) have reviewed the accompanying balance sheets of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

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

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

March 1, 20X3

The following is a standard report of a *continuing accountant who reviewed the current-period financial statements and compiled the prior-period statements*: (AR 200.10)

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20X2, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

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

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the 20X2 financial statements in order for them to be in conformity with generally accepted accounting principles.

The accompanying 20X1 financial statements of XYZ Company were compiled by me (us). A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the 20X1 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

March 1, 20X3

Lower Level of SSARS Service Performed by Continuing Accountant. A continuing accountant who performs a lower level of SSARS service (a compilation) on the current-period financial statements than was performed (a review) on the prior-period statements presented should *either*: (AR 200.08 and AR 200.11)

- a. include a separate paragraph in the compilation report describing the responsibility assumed for the prior-period statements, specifically—
 - (1) disclosing the original date of the accountant's review report, and
 - (2) stating that the accountant has not performed any procedures with respect to the prior period review after that date, or
- b. reissue his or her report on the prior-period statements, by either—
 - (1) combining the compilation report for the current period with the reissued review report and stating that the accountant has not performed any procedures with respect to the review after the date of that review, or
 - (2) presenting the current period compilation report and the reissued review report separately.

The following illustrates an explanatory paragraph for a compilation report, item a. when the current-period statements have been compiled and the prior-period statements were reviewed: (AR 200.12)

The accompanying 20X1 financial statements of XYZ Company were previously reviewed by me (us) and my (our) report dated March 1, 20X2, stated that I was (we were) not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles. I (we) have not performed any procedures in connection with that review engagement after the date of my (our) report on the 20X1 financial statements.

Changed Reference to GAAP Departure in Continuing Accountant's Report. A continuing accountant should consider the effects on his or her report on the prior-period financial statements of circumstances and events that

come to his or her attention during the current engagement. Those circumstances or events may cause the continuing accountant to change a reference (or add a new reference, or remove a prior reference) to a GAAP departure in the report on the prior-period statements. The changed report should include a separate explanatory paragraph stating the following: (AR 200.14)

- a. the date of the previous report,
- b. the circumstance or events that caused the change with respect to GAAP conformity, and
- c. when applicable, that the prior-period statements have been changed.

The following illustrates an explanatory paragraph for a continuing accountant's compilation or review report explaining a changed reference to a GAAP departure: (AR 200.15)

In my (our) previous (compilation) (review) report dated March 1, 20X2, on the 20X1 financial statements, I (we) referred to a departure from generally accepted accounting principles because the Company carried its land at appraised values. However, as disclosed in Note X, the Company has restated its 20X1 financial statements to reflect its land at cost in accordance with generally accepted accounting principles.

Change in Previous Financial Statements to Omit Substantially All Disclosures

An accountant who previously compiled, reviewed, or audited financial statements that did not omit substantially all disclosures may later be asked to compile statements for the same period that do omit substantially all disclosures for presentation in comparative financial statements. That is, the current-period compiled statements will omit substantially all disclosures, and substantially all disclosures are to be removed from the prior-period statements for comparative purposes. The accountant may issue a compilation report on such comparative statements as long as the report includes a separate paragraph stating the following: (AR 200.30)

- The date of the previous report.
- The nature of the service previously rendered on the prior-period statements.
- If the previous report was a compilation or review report that was modified or that included an emphasis paragraph, a description or quotation of any such modifications or emphasis of matter. (AR 9200.03)
- If the previous report was an audit report that was qualified, adverse, or had a disclaimer of opinion, an indication of the type (or disclaimer) of opinion and the reasons for it. (AR 9200.03)

If the previous report was an audit report with an explanatory paragraph describing an uncertainty (such as a going-concern uncertainty), the accountant should consider including a separate paragraph describing the uncertainty in the compilation report relating to the current period. This is true even though compilation reports on statements that omit substantially all disclosures are not required to disclose such uncertainties. (AR 9200.04)

The following illustrates a compilation report on comparative financial statements that omit substantially all disclosures when the preceding period's service was a review of statements that did not omit substantially all disclosures: (AR 200.31)

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

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

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

February 1, 20X3

Current Period Audited and Prior Period Compiled or Reviewed

SAS No. 26 gives reporting guidance for current-period financial statements that have been audited when statements of one or more periods have been compiled or reviewed. (AR 200.28)

Current Period Compiled or Reviewed and Prior Period Audited

When current-period financial statements have been compiled or reviewed and prior-period statements were audited, the accountant should issue an appropriate compilation or review report on the current-period statements and also either— (AR 200.29)

- a. reissue the audit report on the prior-period statements, or
- b. include in the report on the current-period statements a separate paragraph that describes the responsibility assumed for the prior-period statements by stating—
 - (1) that the prior-period statements were previously audited,
 - (2) the previous report's date,
 - (3) the type of opinion expressed in the previous report,
 - (4) the substantive reasons for any opinion other than an unqualified opinion in the previous report, and
 - (5) that no auditing procedures were performed after the date of the previous report.

An example of such a paragraph follows:

The financial statement for the year ended December 31, 20X1, were audited by us (other accountants) and we (they) expressed an unqualified opinion on them in our (their) report dated March 1, 20X2, but we (they) have not performed any auditing procedures since that date.

Change between Issuer and Nonissuer

An entity's current status as an issuer or a nonissuer governs what reporting standards apply. A previously issued report that is no longer appropriate for the entity's current status should not be reissued or referred to in the report on the current period's statements. Thus: (AR 200.32–.33)

- *Entity is an issuer in the current period and was a nonissuer in the prior period.* The prior-period SSARS compilation or review report should not be reissued or referred to in the report on the current period's comparative statements.
- *Entity is a nonissuer in the current period and was an issuer in the prior period.* If an unaudited disclaimer of opinion was previously issued on the prior period's statements, it should not be reissued or referred to

in the current report. Instead, the prior-period statements should be compiled or reviewed under SSARS and reported on accordingly.

Report When There Was a Predecessor Accountant

Predecessor Accountant Issued a Compilation or Review Report on Prior-period Statements. When compiled or reviewed financial statements are presented along with prior-period statements that were compiled or reviewed by a predecessor accountant, the following alternatives exist with respect to those prior-period statements: (AR 200.16)

- a. The predecessor accountant may, but is not required to, reissue his or her report at the client's request.
- b. If the predecessor's report is not reissued, the successor should either—
 - (1) compile, review, or audit the prior-period's statements and report accordingly, or
 - (2) refer to the predecessor's report.

Successor Accountant Makes Reference to Predecessor's Compilation or Review Report. If a predecessor accountant does not reissue his or her compilation or review report on prior-period financial statements, and the successor accountant chooses alternative b(2) in the preceding paragraph, the successor's compilation or review report on the current period's statements should include a separate paragraph referring to the predecessor's report. The separate paragraph should include the following: (AR 200.17)

- A statement that the prior-period statements were compiled or reviewed by another accountant. The successor accountant is prohibited from naming the predecessor in the successor's report except in those instances when the predecessor accountant's practice was acquired by, or merged with, the successor's practice. (AR 200.17, footnote 9)
- The date of the prior report.
- A description of the standard form of compilation disclaimer or limited review assurance, as applicable, included in the prior report.
- A description or quotation of any modifications or emphasis paragraphs in the prior report.

The following is an example of such a last *paragraph referring to a predecessor's compilation report*: (AR 200.19)

The 20X1 financial statements of XYZ Company were compiled by other accountants whose report dated February 1, 20X2, stated that they did not express an opinion or any other form of assurance on those statements.

The following is an example of such a last *paragraph referring to a predecessor's review report*: (AR 200.18)

The 20X1 financial statements of XYZ Company were reviewed by other accountants whose report dated March 1, 20X2, stated that they were not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles.

Predecessor Accountant Reissues Compilation or Review Report. Before reissuing his or her compilation or review report on prior-period statements, a predecessor accountant should consider whether that report is still appropriate, taking into account the following matters: (AR 200.20)

- a. the current form and manner of presentation of those statements,
- b. any previously unknown subsequent events, and
- c. any changes in the statements that require the addition or removal of modifications to the standard report.

In addition, the predecessor should perform the following procedures before reissuing his or her report: (AR 200.21)

- Read the current period's statements and the successor's report on them.
- Compare the prior-period statements with those previously issued and with the current-period statements.
- Obtain a letter from the successor indicating whether the successor is aware of any matter that, in the successor's opinion, might have a material effect on the financial statements (including disclosures) the predecessor previously reported on. The predecessor's reissued report should not refer to this letter or to the successor's report.

If a predecessor accountant becomes aware of information, including any events or transactions occurring after the date of the previous report, that he or she believes may affect the prior-period statements or the predecessor's report on them, the predecessor should— (AR 200.22)

- a. make inquiries or perform analytical procedures similar to those he or she would have performed if he or she had been aware of the information at the date of his or her previously issued report, and
- b. perform any other procedures he or she considers necessary in the circumstances, such as discussing the information with the successor accountant or reviewing the successor's workpapers with respect to matters affecting the prior-period statements.

The predecessor's reissued report on prior-period financial statements should be dated as follows: (AR 200.23)

- a. use the same date of the previously issued report, except
- b. if the predecessor revises the report or if the prior-period statements are revised, the reissued report should be dual-dated, for example, "March 1, 20X1, except for note X, as to which the date is March 15, 20X2." The predecessor should also obtain a written statement from the former client describing the new information the predecessor has acquired, its effect on the prior-period statements, and if applicable, the client's understanding of the information's effect on the predecessor's reissued report.

If the predecessor is unable to complete the procedures discussed above, he or she should not reissue the report and may wish to consult with his or her attorney regarding the appropriate course of action. (AR 200.24)

Restated Prior-period Financial Statements

Prior-period financial statements presented along with current-period statements may have been restated. When this happens, either the predecessor or successor accountant may report on the restated financial statements. SSARS No. 2, as amended by SSARS No. 12, states that— (AR 200.25)

- a. the predecessor accountant may reissue his report, or
- b. the successor accountant may report on the financial statements for both years, or
- c. the successor accountant may limit his prior year report to the restatement adjustment.

If the predecessor accountant reissues his report on the restated financial statements, the report should be dual-dated. If the successor accountant reports on the restated financial statements, he should perform a compilation or review in accordance with the standards in SSARS No. 1 or perform an audit in accordance with the auditing standards that relate to the restated financial statements. A successor's report on restated prior period financial statements should not refer to the predecessor's previously issued report.

SSARS No. 2, as amended, allows the option of having the successor accountant report on the restatement adjustment only. If the predecessor accountant does not reissue his or her report and the successor accountant is not engaged to report on the restated financial statements, the successor accountant's report on the prior year may

be limited to the restatement adjustment. In this situation, the introductory paragraph of the successor accountant's report should state that a predecessor accountant reported on the financial statements of the prior period before restatement. The successor accountant's report may indicate that he or she compiled or reviewed the adjustment that was applied to restate the prior-year financial statements. (AR 200.25–.26)

Illustrative Compilation Report on Restated Financial Statements. The following illustrates a successor accountant's compilation report on restated comparative financial statements when the predecessor's report is not reissued and the successor compiles the restatement adjustment: (AR 200.25)

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20X2, and the related statements of income, retained earnings, and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. I (we) also compiled the adjustment [described in Note X, if applicable] that was applied to restate the 20X1 financial statements. The 20X1 financial statements of XYZ Company, before the adjustment [described in Note X, if applicable] that was applied to restate the 20X1 financial statements, were compiled by other accountants whose report dated March 31, 20X2, did not express an opinion or any other form of assurance on those financial statements.

[Same second paragraph as the standard report.]

Illustrative Review Report on Restated Financial Statements. The following illustrates a successor accountant's review report on restated comparative financial statements when the predecessor's report is not reissued and the successor has reviewed the restatement adjustment: (AR 200.27)

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20X2, and the related statements of income, retained earnings, and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company. The 20X1 financial statements of XYZ Company, before the adjustment described in Note X that was applied to restate the 20X1 financial statements, were reviewed by other accountants whose report dated March 31, 20X2, stated that they were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with generally accepted accounting principles.

[Same second and third paragraphs as the standard report.]

I (we) also reviewed the adjustment as described in Note X that was applied to restate the 20X1 financial statements. Based on my (our) review, nothing came to my (our) attention to indicate that the adjustment is not appropriate and properly applied.

Financial Statements with Different Bases of Accounting for the Same Period

A client may request that an accountant compile or review financial statements prepared using an OCBOA when the accountant in the prior year compiled or reviewed GAAP financial statements for the same period. For example, in 20X2, a regulatory agency might require that a company use the accounting basis it uses for preparing its federal income tax returns to prepare financial statements for 20X2 and 20X1 it submits to the agency, while in 20X1 a bank had requested GAAP financial statements for that period.

SSARS do not address such situations. However, SAS No. 62 (AU 623) states that auditors are not required to add an explanatory paragraph to their report to highlight the fact that both GAAP and OCBOA financial statements exist for the same period of time.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

13. An accountant may accept an engagement to issue a compilation or review report on a tax return as long as he or she:
 - a. Adheres to applicable SSARS performance and reporting standards.
 - b. Also compiles or reviews the basic financial statements.
 - c. Also audits the basic financial statements.
 - d. Issues the report only for Form 1040.
14. A loan provision requiring a schedule of income and expenses measured in accordance with GAAP is an example of which of the following general categories of special-purpose financial presentations?
 - a. Financial statements that do not constitute a complete presentation of the entity's assets, liabilities, revenues, or expenses but otherwise conforms to GAAP or an OCBOA.
 - b. Complete financial statements that are prepared on a contractual or regulatory basis of accounting that is not in conformity with GAAP or an OCBOA.
15. With regard to personal financial statements, an accountant who qualifies for and chooses the exemption from SSARS procedures should issue a written report stating all of the following concerning the unaudited financial statements **except**:
 - a. They are designed to help in developing the financial plan.
 - b. They do not need to include a reference to the accountant's report.
 - c. They may be incomplete or contain GAAP departures.
 - d. They have not been audited, reviewed, or compiled.
16. A separate paragraph in a compilation report for changes in previous financial statements to omit substantially all disclosures, and in a changed report for changed reference to GAAP departure in continuing accountant's report, should both state which of the following?
 - a. The date of the previous report.
 - b. The circumstance or events causing the change regarding GAAP conformity.
 - c. When applicable, that the prior—period statements have been changed.
 - d. The nature of the service previously rendered on the prior-period statements.
17. When financial statements for the current—period have been compiled or reviewed and prior—period statements were audited, the accountant should issue a compilation or review report on the current—period statements and also either reissue the audit report on the prior—period statements, or include in the report on the current—period statements a separate paragraph describing the responsibility assumed for the prior—period statements by stating all of the following **except**:
 - a. That the prior—period statements were previously audited.
 - b. The type of opinion expressed in the previous report.
 - c. The substantive reasons for any opinion besides an unqualified opinion in the previous report.
 - d. Specific auditing procedures that were performed after the date of the previous report.

18. Which of the following statements reflects the handling of status changes between issuer and nonissuer?
- a. An entity's current status as an issuer or a nonissuer does not determine the reporting standards that apply.
 - b. If the entity is an issuer in the current period and was a nonissuer in the prior period, the prior-period SSARS compilation or review report may be reissued and referred to in the report on the current period's comparative statements.
 - c. If the entity is a nonissuer in the current period and was an issuer in the prior period, the prior-period statements should be compiled or reviewed under SSARS and reported on accordingly.
19. When compiled or reviewed financial statements are presented along with prior-period statements that were compiled or reviewed by a predecessor accountant, which of the following is one of the alternatives that exists regarding those prior-period statements?
- a. The predecessor accountant must reissue his or her report if requested by the client.
 - b. Depending on the circumstances, the successor should compile, review, or audit the prior period's statements and report accordingly.
20. or her compilation or review report, the predecessor should perform several procedures. Which of the following is one of those procedures?
- a. Compare the prior-period statements with those previously issued and with the current period statements.
 - b. The predecessor's reissued report should refer to the letter obtained from the successor that indicates whether the successor knows of any matter that might have a material effect on the financial statements and disclosures the predecessor previously reported on.
 - c. The predecessor's reissued report should refer to the successor's report.
21. Where will an auditor find guidance regarding the issuance of a compilation or review report on both GAAP and OCBOA financial statements covering the same timeframe?
- a. SSARS.
 - b. SAS.
 - c. IRS Bulletin.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

13. An accountant may accept an engagement to issue a compilation or review report on a tax return as long as he or she: **(Page 101)**
- a. **Adheres to applicable SSARS performance and reporting standards. [This answer is correct. If an accountant complies with applicable SSARS performance and reporting standards, he or she can accept an engagement to issue a compilation or review report on a tax return per AR 9100.31.]**
 - b. Also compiles or reviews the basic financial statements. [This answer is incorrect. AR 9100.31 does not require a compilation or review of the basic financial statements in connection with an engagement to issue a compilation or review report on a tax return. However, the accountant is not prohibited from doing so.]
 - c. Also audits the basic financial statements. [This answer is incorrect. The accountant is not required to audit the financial statements in order to issue a compilation or review report on the tax return. The requirements are outlined in AR 9100.31.]
 - d. Issues the report only for Form 1040. [This answer is incorrect. An accountant may report on financial information contained in a tax return (such as Form 1040 for individuals, Form 1120 for corporations, Form 990 for tax-exempt organizations, or Form 5500 for employee benefit plans) by following the guidance in AR 9100.31.]
14. A loan provision requiring a schedule of income and expenses measured in accordance with GAAP is an example of which of the following general categories of special-purpose financial presentations? **(Page 102)**
- a. **Special-purpose financial statements prepared in compliance with a contractual agreement or regulatory provision that do not constitute a complete presentation of the entity's assets, liabilities, revenues, or expenses but otherwise conforms to GAAP or an OCBOA. [This answer is correct. A loan agreement requirement to provide a schedule of income and expenses measured in accordance with GAAP is an example of a special-purpose financial statement where the agreement specifies an incomplete presentation that otherwise conforms with GAAP or an OCBOA. In such situations, the special-purpose financial presentation is considered a presentation of a specified element, account, or item of a financial statement per AR 9100.111.]**
 - b. Complete financial statements that are prepared on a basis of accounting prescribed in an agreement that is not in conformity with GAAP or an OCBOA. [This answer is incorrect. An example of complete financial statements that are prepared on a basis of accounting prescribed in an agreement that is not in conformity with GAAP or an OCBOA is an acquisition agreement that may require certain assets to be presented at their appraised values and other assets be presented on a GAAP basis per AR 9100.116.]
15. With regard to personal financial statements, an accountant who qualifies for and chooses the exemption from SSARS procedures should issue a written report stating all of the following concerning the unaudited financial statements **except**: **(Page 105)**
- a. They are designed to help in developing the financial plan. [This answer is incorrect. One element in the written report concerning the unaudited financial statements is that they are designed to help in developing the financial plan per AR 600.04.]
 - b. **They do not need to include a reference to the accountant's report. [This answer is correct. Each personal financial statement *should* reference the accountant's report per AR 600.06.]**
 - c. They may be incomplete or contain GAAP departures. [This answer is incorrect. Another element in the written report concerning the unaudited financial statements is that they may be incomplete or contain GAAP departures and, as such, should not be used to obtain credit or for any purpose besides developing the personal financial plan per AR 600.04.]

- d. They have not been audited, reviewed, or compiled. [This answer is incorrect. Still another element in the written report concerning the unaudited financial statements is that they have not been audited, reviewed, or compiled per AR 600.04.]
16. A separate paragraph in a compilation report for changes in previous financial statements to omit substantially all disclosures, and in a changed report for changed reference to GAAP departure in continuing accountant's report, should both state which of the following? **(Page 108 and Page 109)**
- a. **The date of the previous report. [This answer is correct. The date of the previous report should be included in both situations per AR 200.14 and 200.30.]**
 - b. The circumstance or events causing the change regarding GAAP conformity. [This answer is incorrect. The circumstance or events causing the change regarding GAAP conformity should be included in a separate explanatory paragraph of the changed report for changed reference to GAAP departure in the continuing accountant's report, but not in a compilation report for changes in previous financial statements to omit substantially all disclosures per AR 200.14.]
 - c. When applicable, that the prior-period statements have been changed. [This answer is incorrect. A statement in a separate paragraph that, when applicable, the prior-period statements have been changed should be included in the changed report for changed reference to GAAP departure in the continuing accountant's report, not in a compilation report for changes in previous financial statements to omit substantially all disclosures per AR 200.14.]
 - d. The nature of the service previously rendered on the prior-period statements. [This answer is incorrect. The nature of the service previously rendered on the prior-period statements should be included in a separate paragraph to a compilation report issued for changes in previous financial statements to omit substantially all disclosures, but not in the changed report for changed references to GAAP departure in the continuing accountant's report per AR 200.30.]
17. When financial statements for the current-period have been compiled or reviewed and prior-period statements were audited, the accountant should issue a compilation or review report on the current-period statements and also either reissue the audit report on the prior-period statements, or include in the report on the current-period statements a separate paragraph describing the responsibility assumed for the prior-period statements by stating all of the following **except: (Page 110)**
- a. That the prior-period statements were previously audited. [This answer is incorrect. Stating that the prior-period statements were previously audited *is* one of the responsibilities assumed for the prior-period statements per AR 200.29.]
 - b. The type of opinion expressed in the previous report. [This answer is incorrect. Another indication of the responsibility assumed for the prior-period statements is stating the type of opinion expressed in the previous report per AR 200.29.]
 - c. The substantive reasons for any opinion besides an unqualified opinion in the previous report. [This answer is incorrect. The substantive reasons for any opinion besides an unqualified opinion in the previous report should be included in the report on the current-period statements describing the responsibility assumed for the prior-period statements per AR 200.29.]
 - d. **Specific auditing procedures that were performed after the date of the previous report. [This answer is correct. The report of the current-period statements should include a separate paragraph that states, among other things, that *no* auditing procedures were performed after the date of the previous report per AR 200.29.]**
18. Which of the following statements reflects the handling of status changes between issuer and nonissuer? **(Page 110)**
- a. An entity's current status as an issuer or a nonissuer does not determine the reporting standards that apply. [This answer is incorrect. An entity's current status as an issuer or a nonissuer *does* determine the reporting standards that apply per AR 200.32 – .33.]

- b. If the entity is an issuer in the current period and was a nonissuer in the prior period, the prior-period SSARS compilation or review report may be reissued. [This answer is incorrect. If the entity is an issuer in the current period and was a nonissuer in the prior period, the prior-period SSARS compilation or review report should *not* be reissued per AR 200.32 – .33.]
 - c. **If the entity is a nonissuer in the current period and was an issuer in the prior period, the prior-period statements should be compiled or reviewed under SSARS and reported on accordingly. [This answer is correct. The prior-period statements *should* be compiled or reviewed under SSARS and reported on accordingly if the entity is a nonissuer in the current period and was an issuer in the prior period per AR 200.32 – .33.]**
19. When compiled or reviewed financial statements are presented along with prior-period statements that were compiled or reviewed by a predecessor accountant, which of the following is one of the alternatives that exists regarding those prior-period statements? **(Page 111)**
- a. The predecessor accountant must reissue his or her report if requested by the client. [This answer is incorrect. The predecessor accountant may reissue his or her report if requested by the client, however, reissuing the report is not a requirement per AR 200.16.]
 - b. **Depending on the circumstances, the successor should compile, review, or audit the prior period's statements and report accordingly. [This answer is correct. If the predecessor's report is not reissued, the successor should either compile, review, or audit the prior-period's statements and report accordingly, or make reference to the predecessor's report per AR 200.16.]**
20. Prior to reissuing his or her compilation or review report, the predecessor should perform several procedures. Which of the following is one of those procedures? **(Page 112)**
- a. **Compare the prior-period statements with those previously issued and with current period statements. [This answer is correct. One of several procedures the predecessor should perform prior to reissuing his or her compilation or review report is to compare the prior-period statements with those previously issued and with the current-period statements per AR 200.21.]**
 - b. The predecessor's reissued report should refer to the letter obtained from the successor that indicates whether the successor knows of any matter that might have a material effect on the financial statements and disclosures the predecessor previously reported on. [This answer is incorrect. The predecessor's reissued report should *not* refer to the letter cited above per AR 200.21.]
 - c. The predecessor's reissued report should refer to the successor's report. [This answer is incorrect. The predecessor's reissued report should not refer to the successor's report per AR 200.21.]
21. Where will an auditor find guidance regarding the issuance of a compilation or review report on both GAAP and OCBOA financial statements covering the same timeframe? **(Page 113)**
- a. SSARS. [This answer is incorrect. SSARS do not address these types of situations.]
 - b. **SAS. [This answer is correct. SAS No. 62 (AU 623) indicates that it is not a requirement that auditors add an explanatory paragraph to their report indicating that both GAAP and OCBOA financial statements exist for the same period of time.]**
 - c. IRS Bulletin. [This answer is incorrect. The IRS does not issue bulletins to provide guidance regarding reports issued for financial statements with different bases of accounting for the same period.]

EXAMINATION FOR CPE CREDIT**Lesson 1 (GASTG092)**

Determine the best answer for each question below. Then mark your answer choice on the **Examination for CPE Credit Answer Sheet** located in the back of this workbook or by logging onto the Online Grading System.

1. Which of the following should be included as a basic element of a standard compilation report?
 - a. A statement that a compilation has been performed in accordance with SSARS issued by the Society of Certified Public Accountants in the applicable state.
 - b. A statement that a compilation is presented as financial statements information that is the representation of both the owners and a majority of the employees.
 - c. A statement that the accountant does not express an opinion or any other form of assurance on the financial statements.
 - d. A certification by the accounting firm or the accountant that a signature will be provided at a date subsequent to completion of the compilation report.
2. Bill is an accountant who prepares quarterly compilations for his clients. How many financial statements must Bill include in each compilation report that he issues?
 - a. One (such as a balance sheet).
 - b. Two (such as a balance sheet and the related statement of income).
 - c. Three (such as a balance sheet, the statement of income, and statements of cash flows).
 - d. Four (such as a balance sheet, the statement of income, statement of cash flows, and statement of retained earnings).
3. The user's conclusions about which of the following would **not** be influenced when GAAP financial statements omit substantially all disclosures in the standard compilation report?
 - a. Financial position.
 - b. Cash flows.
 - c. Estimated future sales.
 - d. Results of operations.
4. Which of the following standard preprinted forms is considered to be a prescribed form?
 - a. A form designed by the entity whose financial statements are to be compiled.
 - b. A form adopted by the entity whose financial statements are to be compiled.
 - c. A form used by securities traders.
 - d. A form used by credit agencies.
5. There are a number of basic components of a compilation report covering one or more specified elements, accounts, or items of a financial statement. Which of the basic components listed below is accurate?

- a. A statement indicating whether the compilation was performed in accordance with GAAP.
 - b. A statement that the basis of presentation of the elements, accounts, or items is in keeping with GAAP.
 - c. A statement that a compilation presents information that is limited to the auditor's representation.
 - d. The signature of the accounting firm or accountant as well as the date of the compilation report.
6. Of the following statements, which one is correct regarding review reports?
- a. When the scope of the inquiry and analytical procedures have been restricted, an accountant may only issue a review report on just one financial statement.
 - b. It is not required that an accountant to be independent in order to issue a review report.
 - c. The review report should include any compilation procedures the accountant performed during the review engagement.
 - d. The standard report should be used and modified to appropriately identify the OCBOA financial statements, when the notes to OCBOA financial statements disclose the basis of presentation and how it differs from GAAP.
7. The accountant should consent to the use of his or her name in a document or written communication containing unaudited financial statements of a nonpublic entity in which of the following situations?
- a. The nonpublic entity has compiled the statements in accordance with SSARS using an internal accountant.
 - b. The nonpublic entity has reviewed the statements in accordance with SSARS using an internal accountant.
 - c. The financial statements are accompanied by an indication that the accountant has not compiled or reviewed the statements and will not assume responsibility for them.
 - d. Do not select this answer choice.
8. Modifying the compilation or review report, or deciding to withdraw from the engagement is necessary in all of the following circumstances **except**:
- a. A GAAP departure.
 - b. A OCBOA departure.
 - c. An adequate disclosure.
 - d. A disclosure inadequacy.
9. An accountant who decides that report modification is appropriate when there is a material GAAP departure should:
- a. Weigh the advantages and disadvantages of disclosing the departure.
 - b. Disclose the departure only if it enhances the report modification.
 - c. Disclose the departure in a separate paragraph.
 - d. Disclose the departure in a separate report.

10. Which of the following is one of the guidelines presented by the AICPA Compilation and Review Alert—2003/2004 for emphasis paragraphs?
- a. They should introduce new information about the financial statements.
 - b. They should not present the accountant's conclusions or opinions.
 - c. They should not include a separate paragraph indicating the financial statements contain a GAAP or OCBOA departure.
 - d. They should contain information regarding procedures the accountant has performed or not performed.
11. Based on the intended use, an accountant's report can be classified as any of the following **except**:
- a. General use report.
 - b. Alternate use report.
 - c. Restricted use report.
 - d. Combined report.
12. If the accountant agrees to add other specified parties during or after completion of the compilation or review engagement, the accountant:
- a. Does not need to confirm with the added parties their understanding of the nature of the engagement.
 - b. Does not need to confirm with the added parties their understanding of the measurement or disclosure criteria used.
 - c. Does not need to confirm with the added parties their understanding of the accountant's report.
 - d. Should not change the date of any reissued report that may result from the addition of other parties after the accountant has issued his or her original report.
13. What is a financial presentation prepared on a basis of accounting prescribed in an agreement that is not in conformity with an OCBOA or GAAP called?
- a. An incomplete presentation.
 - b. A dual—purpose financial presentation.
 - c. A special—purpose financial presentation.
 - d. A supplementary presentation.
14. Which of the following statements is true regarding unaudited personal financial statements included in written personal financial plans prepared by an accountant?
- a. SSARS No. 6 (AR 600) requires special reporting in such cases.
 - b. SSARS No. 6 (AR 600) provides an exemption from SSARS performance requirements.
 - c. SSARS No. 6 (AR 600) does not address circumstances related to unaudited personal financial statements.
 - d. The accountant must meet all the same SSARS requirements for unaudited personal financial statements included in written personal financial plans as those required for audited personal financial statements.

15. Susan is an accountant who is preparing a compilation report on comparative financial statements. Where in the comparative statements should Susan include a reference such as "See Accountant's Report"?
- On the first page.
 - On all right-hand pages.
 - On each page.
 - On the first and last pages.
16. If comparative financial statements are both audited, the accountant should:
- See auditing literature in AU 508.
 - See auditing literature in AU 504.
 - Refer to SSARS No. 2.
 - Refer to SSARS No. 8.
17. If comparative financial statements are for a public company, the accountant should:
- Refer to SSARS No. 11.
 - Refer to SSARS No. 12.
 - See auditing literature in AU 504.
 - See auditing literature in AU 508.
18. If a predecessor accountant does not reissue his or her compilation or review report on prior-period financial statements and the successor accountant elects to refer to the predecessor's report, the successor's compilation or review report on the current period's statements should include a separate paragraph referring to the predecessor's report. Several items should be included in the separate paragraph. Which of the following should be omitted from the separate paragraph?
- The name of the predecessor accountant that compiled or reviewed the prior-period statements.
 - The date of the prior report.
 - A description of the standard form of compilation disclaimer or limited review assurance, whichever applies, included in the prior report.
 - A description or quotation of any modifications or emphasis paragraphs in the prior report.
19. Prior to reissuing his or her compilation or review report on prior-period statements, a predecessor accountant should determine whether that report is still appropriate and consider all of the following **except**:
- The current form and manner of presentation of those statements.
 - The anticipated future form and manner of presentation of those statements.
 - Any previously unknown subsequent events.
 - The addition or removal of modifications to the standard report due to changes in the statements.

20. The predecessor's reissued report on prior-period financial statements should be dated in which of the following ways?
- a. Use the date the reissued report was completed.
 - b. Use the date the reissued report was provided to the successor.
 - c. Always use the same date of the previously issued report.
 - d. Use the same date as previously issued report unless prior report or prior-period statements are revised.
21. Prior-period financial statements that are presented with current-period financial statements may have been restated. When this occurs, either the predecessor or successor accountant may report on the restated financial statements. SSARS No. 2, as amended, states that any of the following may occur **except**:
- a. The predecessor accountant may reissue his report.
 - b. The successor accountant may substitute a replacement report for the predecessor's report.
 - c. The successor accountant may report on the financial statements for both years.
 - d. The successor accountant may limit his prior year report to the restatement adjustment.

Lesson 2: Quality Control Standards

INTRODUCTION

Article VI of the AICPA *Principles of Professional Conduct* requires quality control procedures to “ensure that services are competently delivered and adequately supervised.” Statements on Quality Control Standards (SQCS) are issued by the AICPA Auditing Standards Board to provide the framework for developing and maintaining an effective system of quality control. Firms that have accounting and auditing practices are required to follow the quality control standards.

Learning Objectives:

Completion of this lesson will enable you to:

- Appropriately apply Statements on Quality Control Standards (SQCS) to services performed in a firm's accounting and auditing practice and administer a quality control system in order to have reasonable assurance that the system's objectives are achieved.
- Identify quality control policies and procedures.

Authoritative Literature

SQCS No. 7, *A Firm's System of Quality Control*, establishes standards and provides guidance for a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice. The provisions of SQCS No. 7 are presented in QC Section 10 of the AICPA's Quality Control Standards.

Applicability

SQCSs apply to a firm's accounting and auditing practice, which includes all audit, attestation, compilation, review, and other services for which standards have been established by the AICPA Auditing Standards Board (ASB) or Accounting and Review Services Committee (ARSC) under Rule 201 or Rule 202 of the AICPA *Code of Professional Conduct*. Engagements performed in accordance with standards established by other AICPA technical committees are not considered to be accounting and auditing services. For example, quality control standards do not apply to consulting services or valuation services because standards for those services are established by the Consulting Services Executive Committee, not ASB or ARSC.

Professional Requirements

SQCS No. 7 establishes professional requirements and provides related guidance regarding a firm's system of quality control. The entire text of the SQCS is to be considered in understanding and applying the requirements. SQCS No. 7 categorizes professional requirements as: (QC 10.08)

- **Unconditional Requirements.** Unconditional requirements are those that must be followed in all cases if the circumstances apply to the requirement. Unconditional requirements use the words *must* or *is required*.
- **Presumptively Mandatory Requirements.** A firm is also expected to comply with presumptively mandatory requirements if the circumstances apply to the requirement. However, in rare situations, a departure from the requirement is allowed if the firm documents the justification and how alternative procedures were sufficient to achieve the objectives of the requirement. Presumptively mandatory requirements are identified by the word *should*. If an SQCS uses the words *should consider* for a procedure, the consideration of the procedure is presumptively required.

Explanatory material within an SQCS provides additional guidance on professional requirements or identifies other procedures or actions. These items require understanding and professional judgment regarding their applicability. A firm is not required to perform other procedures or actions that are identified through explanatory material. Explanatory material is identified through the words *may*, *might*, and *could*.

Glossary

Exhibit 2-1 provides a glossary of some of the terms from QC 10.05 used in this lesson.

Exhibit 2-1**Glossary**

Engagement documentation—The record of work performed, results obtained, and conclusions reached. Some firms refer to engagement documentation as working papers or workpapers.

Engagement partner—The person responsible for supervising engagements covered by SQCS No. 7 and signing or authorizing someone to sign the report on such engagements; and who, where required, has the appropriate authority from a professional, legal, or regulatory body. Firms might use different titles to refer to these individuals.

Engagement quality control review—An objective evaluation, by one or more persons who are not members of the engagement team, of the significant judgments made by the engagement team and the conclusions the team reached in formulating the report.

Engagement quality control reviewer—A partner, other person in the firm, qualified external person, or a team of such individuals, none of whom is on the engagement team, but who have sufficient and appropriate experience and authority to perform the engagement quality control review.

Engagement team—All persons performing the engagement (but not engagement quality control reviewers). The engagement team (a) includes all employees and contractors retained by the firm who perform engagement procedures, regardless of their functional classification (e.g., audit, tax, or management consulting services) and (b) excludes specialists as discussed in AU section 336, *Using the Work of a Specialist*, and individuals who perform only routine clerical functions.

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

Inspection—A retrospective evaluation of the adequacy of the firm's quality control policies and procedures, the understanding by personnel of those policies and procedures, and the extent of the firm's compliance with them. Inspection is an element of monitoring.

Monitoring—Ongoing consideration and evaluation of the firm's quality control system, the objective of which is to enable the firm to obtain reasonable assurance that its quality control system is designed appropriately and operating effectively.

Partner—An individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, a *partner* may be an employee who has this authority but has not assumed the risks and benefits of ownership. Firms may use different titles to refer to individuals with this authority.

Personnel—All individuals, whether or not CPAs, who perform professional services for which the firm is responsible.

Professional standards—Standards established by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee under Rules 201 or 202 of the *Code of Professional Conduct* or other bodies that set auditing and attest standards applicable to the engagement being performed.

Qualified external person—An individual outside the firm with the capabilities and competence to act as an engagement partner.

Reasonable assurance—In the context of SQCS No. 7, a high, but not absolute, level of assurance.

Relevant ethical requirements—Ethical requirements to which the firm and its personnel are subject, i.e., the AICPA *Code of Professional Conduct* together with rules of state boards of accountancy and applicable regulatory agencies, which may be more restrictive.

Staff—Personnel, including any specialists who are employees of the firm, but not partners or engagement partners.

* * *

SYSTEM OF QUALITY CONTROL

Unconditional Requirement to Establish a Quality Control System

SQCS No. 7 establishes an unconditional requirement that a firm must establish a system of quality control designed to provide reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements, and that appropriate reports are issued. A quality control system consists of policies designed to achieve these objectives and procedures for implementing and monitoring compliance with the policies. (QC 10.03) The policies and procedures should encompass the following six elements: (QC 10.14)

- Leadership responsibilities for quality within the firm (“tone at the top”).
- Relevant ethical requirements.
- Acceptance and continuance of client relationships and specific engagements.
- Human resources.
- Engagement performance.
- Monitoring.

These elements are discussed below.

The nature of a firm's quality control policies and procedures will depend on various factors, such as the size and operating characteristics of the firm. If applicable, the quality control system should be designed to provide reasonable assurance that portions of engagements performed by the firm's foreign offices, foreign member firms, or domestic or foreign affiliates are performed in accordance with U.S. professional standards. (QC 10.04)

Requirement to Document and Communicate Quality Control Policies and Procedures

A firm should document its quality control policies and procedures; however, the firm's size and structure, as well as the nature of its practice, can be considered in determining the extent of documentation. Documentation of the policies and procedures of a small, single-office firm might not be as extensive as that of a large, multi-office firm. (QC 10.12)

In addition to documenting its quality control policies and procedures, a firm should communicate the policies and procedures to its personnel; however, there is no requirement for the communication to be in writing. SQCS No. 7 explains that effective communication: (QC 10.13)

- Describes the policies and procedures and their objectives.
- Conveys that each individual has a personal responsibility for quality and is expected to be familiar with and to comply with the policies and procedures.
- Stresses the importance of obtaining feedback about the quality control system.
- Encourages personnel to communicate their views or concerns regarding quality control matters.

Requirement to Document the Operation of Quality Control Policies and Procedures

A firm should establish policies and procedures requiring that the operation of each element of the quality control system be appropriately documented. (QC 10.125) Appropriate documentation is a matter of judgment and depends on many factors, including the firm's size, number of offices, and the nature and complexity of its practice and organization.

Requirement for Retention of Documentation

A firm should establish policies and procedures that require documentation to be retained for a period of time sufficient to permit individuals performing monitoring procedures and peer review to evaluate the firm's compliance with its quality control system, or for a longer period if required by law or regulation. (QC 10.127)

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

22. Statements on Quality Control Standards (SQCS) No. 7 categorizes professional requirements in one of two areas. Which of the following is **not** one of those two types of requirements?
- a. Unconditional requirements.
 - b. Conditional requirements.
 - c. Presumptively mandatory requirements.
23. Which of the following actions is defined as the “ongoing consideration and evaluation of the firm’s quality control system”?
- a. Monitoring.
 - b. Inspection.
 - c. Engagement quality control review.
24. The extent to which a firm should document its quality control policies and procedures may be impacted by a number of factors. The documentation would be unaffected by which of the following factors?
- a. The firm’s size.
 - b. The firm’s structure.
 - c. The firm’s net worth.
 - d. The nature of the firm’s practice.
25. A firm should establish quality control policies and procedures that require documentation to be retained for:
- a. A period of time sufficient to permit individuals performing monitoring procedures and peer review to evaluate the firm’s compliance with its quality control system, up to a maximum of three years.
 - b. Ample time to permit individuals performing monitoring procedures and peer review to evaluate the firm’s compliance with its quality control system, or longer if required by law or regulation.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. (References are in parentheses.)

22. Statements on Quality Control Standards (SQCS) No. 7 categorizes professional requirements in one of two areas. Which of the following is **not** one of those two types of requirements? **(Page 125)**
- a. Unconditional requirements. [This answer is incorrect. Unconditional requirements are one of two categories of professional requirements under SQCS No. 7. Unconditional requirements are requirements that must be followed in all cases if the circumstances apply to the requirement. Unconditional requirements use the words *must* or *is required* per QC 10.08.]
 - b. Conditional requirements. [This answer is correct. Conditional requirements are not one of the two categories of professional requirements that are identified under SQCS No. 7 per QC 10.08.]**
 - c. Presumptively mandatory requirements. [This answer is incorrect. Presumptively mandatory requirements are one of two categories of professional requirements under SQCS No. 7. A firm is expected to comply with presumptively mandatory requirements if the circumstances apply to the requirement. However, in rare situations, a departure from the requirement is allowed if the firm documents the justification and how alternative procedures were sufficient to achieve the objectives of the requirement. Presumptively mandatory requirements are identified by the word *should*. If an SQCS uses the words *should consider* for a procedure, the consideration of the procedure is presumptively required per QC 10.08.]
23. Which of the following actions is defined as the “ongoing consideration and evaluation of the firm’s quality control system”? **(Page 126)**
- a. Monitoring. [This answer is correct. Monitoring is defined in the text as the “ongoing consideration and evaluation of the firm’s quality control system to enable the firm to determine with reasonable assurance that its quality control system is designed appropriately and operating effectively”.]**
 - b. Inspection. [This answer is incorrect. Inspection is defined in the text as a “retrospective evaluation of the adequacy of the firm’s quality control policies and procedures, the understanding of those policies and procedures by personnel, and to what extent the firm complies with them”.]
 - c. Engagement quality control review. [This answer is incorrect. An engagement quality control review is defined as “an objective evaluation by one or more persons who are not members of the engagement team, of the significant judgments made by the engagement team, and the conclusions the team reached in formulating the report.”]
24. The extent to which a firm should document its quality control policies and procedures may be impacted by a number of factors. The documentation should **not** be affected by which of the following factors? **(Page 127)**
- a. The firm’s size. [This answer is incorrect. The firm’s size can be considered in determining the extent of documentation of its quality control policies and procedures per QC 10.12.]
 - b. The firm’s structure. [This answer is incorrect. The firm’s structure is one of several factors that can be considered in determining the extent of documentation to be provided per QC 10.12.]
 - c. The firm’s net worth. [This answer is correct. The firm’s net worth should have no bearing in determining the extent of documentation it should provide regarding its quality control policies and procedures per QC 10.12.]**
 - d. The nature of the firm’s practice. [This answer is incorrect. The nature of the firm’s practice is another factor that can be considered when determining the extent of documentation it will provide per QC 10.12.]

25. A firm should establish quality control policies and procedures that require documentation to be retained for:
(Page 128)
- a. A period of time sufficient to permit individuals performing monitoring procedures and peer review to evaluate the firm's compliance with its quality control system, up to a maximum of three years. [This answer is incorrect. There is no general limit on the period of time during which required documentation must be retained per QC 10.127.]
 - b. Ample time to permit individuals performing monitoring procedures and peer review to evaluate the firm's compliance with its quality control system, or longer if required by law or regulation. [This answer is correct. Even if enough time has been provided to permit the evaluation of the firm's compliance with its quality control system, additional time may be required by law or regulation per QC 10.127.]**

QUALITY CONTROL POLICIES AND PROCEDURES

SQCS No. 7 requires that a firm establish policies and procedures for each of the elements listed above. The following paragraphs discuss each element.

Leadership Responsibilities for Quality within the Firm

The element, *leadership responsibilities for quality within the firm*, requires the firm's leadership (e.g., managing partner, CEO, the board, etc.) to assume ultimate responsibility for the quality control system. The firm's leadership may assign operational responsibility for the quality control system to others provided that those individuals have sufficient and appropriate experience, are able to identify and understand quality control issues and develop appropriate policies and procedures. These persons should also have the authority to implement the policies and procedures.

SQCS No. 7 establishes several presumptively mandatory requirements for leadership responsibilities for quality within a firm, including: (QC 10.15–.18)

- A firm should promote an internal culture that understands that quality is fundamental to performing engagements.
- A firm should establish policies and procedures that promote a culture of quality.
- A firm should establish policies to allocate sufficient and appropriate resources to the development, communication, and support of quality control policies and procedures.
- Firm leadership should assume ultimate responsibility for the quality control system.
- Individuals charged with operational responsibility of the quality control system should have sufficient and appropriate experience as well as the ability to identify and understand quality control issues and to develop and implement appropriate policies and procedures.
- Management responsibilities should be assigned so that commercial considerations do not override the quality of work.
- The way the firm evaluates, compensates, and promotes its personnel should reflect the objectives of its system of quality control.

As indicated above, a firm should promote an internal culture that recognizes and rewards quality work. Promoting a quality-oriented culture depends on clear, consistent, and frequent actions and messages from all levels of management that emphasize quality control policies and procedures, and the requirements to: (QC 10.16)

- Perform work that complies with professional standards and regulatory and legal requirements.
- Issue reports that are appropriate in the circumstances.

Relevant Ethical Requirements

SQCS No. 7 replaces the previous quality control element "Independence, Integrity, and Objectivity" with an element titled "Relevant Ethical Requirements," which primarily discusses independence. (Integrity and objectivity are discussed as part of the fundamental ethical principles.) SQCS No. 7 states: (QC 10.19)

The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.

Independence. A firm should establish policies and procedures designed to provide reasonable assurance that the firm, its personnel, and others subject to independence requirements maintain independence, where required. These policies and procedures should enable a firm to: (QC 10.21)

- Communicate its independence requirements to firm personnel and others subject to the requirements.

- Identify and evaluate situations and relationships that create threats to independence, and to (a) take appropriate action to eliminate those threats or apply safeguards to reduce them to an acceptable level or (b) withdraw from the engagement if effective safeguards cannot be applied.

Policies and procedures for relevant ethical requirements should require that: (QC 10.22)

- The engagement partner consider relevant information about engagements, including the scope of services, to enable an evaluation of the overall effect on independence requirements.
- Personnel promptly notify the engagement partner and the firm of situations and relationships that create a threat to independence.
- Relevant information be accumulated and communicated to appropriate personnel so that:
 - The firm, the engagement partner, and other firm personnel can readily determine whether they meet independence requirements.
 - The firm and the engagement partner can appropriately act in response to identified threats to independence.
 - The firm can maintain and update information about independence.

A firm should establish policies and procedures designed to provide reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such breaches. The policies and procedures should require: (QC 10.23)

- Firm personnel to promptly notify the firm of independence breaches of which they become aware.
- The firm to promptly communicate identified breaches of the policies and procedures, as well as required corrective actions, to:
 - The engagement partner who (with the firm) has the responsibility to address the breach; and
 - Other relevant individuals who need to take appropriate action.
- Confirmation to the firm by the engagement partner and other relevant individuals that the required corrective actions have been taken.

Independence Confirmation. At least annually, a firm should obtain written confirmation, in paper or electronic form, of compliance with its independence policies and procedures. This confirmation should be obtained from all firm personnel required to be independent by the AICPA *Code of Professional Conduct*, the rules of state boards of accountancy, and applicable regulatory agencies. (QC 10.24)

Rotation of Personnel. Policies and procedures should also address rotation of personnel for audit or attestation engagements when regulatory or other authorities require rotation after a specified period. (QC 10.26)

Acceptance and Continuance of Client Relationships and Specific Engagements

A firm should establish policies and procedures for deciding whether to accept or continue a client relationship or perform a specific engagement for the client that are designed to provide reasonable assurance that it will undertake or continue relationships and engagements only when it: (QC 10.27)

- Has considered the client's integrity, including the identity and business reputation of principal owners, key management, related parties, and those charged with its governance.
- Has considered the risks associated with providing professional services in the circumstances.

- Is competent to perform the engagement and has the capabilities and resources to do so.
- Can comply with legal and ethical requirements.

Information considered necessary in the circumstances should be obtained before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering accepting a new engagement with an existing client. If issues are identified, but the firm decides to still accept or continue the client relationship or specific engagement, the firm should document how the issues were resolved. (QC 10.29)

A firm should also have policies and procedures for obtaining an understanding with clients about the nature, scope, and limitations of the services to be performed. (QC 10.28)

Evaluating a Client's Integrity. As discussed above, a client's integrity should be considered when deciding whether to accept or continue an engagement. Factors to consider when evaluating a client's integrity include: (QC 10.30)

- The nature of the client's operations and its business practices.
- The attitude of the client's principal owners, key management, and those charged with governance toward aggressive accounting and internal control over financial reporting.
- The length of the relationship with the client.

Other Matters to Consider. Other matters to consider in accepting or continuing a client engagement include whether: (QC 10.31)

- Firm personnel have, or are able to effectively acquire, knowledge of relevant industries or subject matters.
- Firm personnel have experience with relevant regulatory or reporting requirements, or, if not, have the ability to effectively gain such competencies.
- The firm has sufficient personnel with the needed competence and capabilities.
- Specialists are available, if needed.
- Qualified engagement quality control reviewers are available, if applicable.
- The engagement can be completed by the reporting deadline.

The decision of whether to continue a client relationship also requires considering significant issues that arose during the current or previous engagements, and their implications for continuing the relationship. (QC 10.33)

If a potential conflict of interest is identified in accepting an engagement, the firm should determine whether accepting the engagement is appropriate. If the engagement is accepted, the firm should consider its ethical requirements under AICPA Ethics Interpretation No. 102-2, *Conflicts of Interest*, such as disclosure of the relationship to the client and other appropriate parties. (QC 10.32)

Policies and procedures on the continuance of engagements and client relationships should include consideration of professional and legal responsibilities that apply if the firm obtains information that would have caused it to decline an engagement if the information had been available earlier. Such policies and procedures should consider the possibility of withdrawing from the engagement or from both the engagement and the client relationship. (QC 10.33–.34)

Policies and procedures on withdrawing from an engagement or both the engagement and the client relationship should require documentation of significant issues, consultations, conclusions, and the basis for the conclusions. Such policies and procedures also might include: (QC 10.35)

- Considering whether there is a professional, regulatory, or legal requirement for the firm to continue the engagement and/or relationship, or to report the withdrawal and reasons therefor, to regulatory authorities.

- Discussing with the appropriate level of the client's management and those charged with governance the action that the firm might take.
- If the firm decides that it is appropriate to withdraw, discussing the withdrawal with the appropriate level of the client's management and those charged with governance.

Human Resources

Policies and procedures should be established that are designed to provide reasonable assurance that the firm has sufficient personnel with the capabilities, competence, and commitment to ethical principles to (a) perform engagements in accordance with professional standards and regulatory and legal requirements and (b) enable the firm to issue appropriate reports. (QC 10.37) Human resource policies and procedures should address, if applicable—(QC 10.38)

- Recruitment and hiring.
- Determining capabilities and competencies.
- Assignment of engagement teams.
- Professional development.
- Performance evaluation, compensation, and advancement.

Recruitment and Hiring. SQCS No. 7 states that effective recruitment processes help a firm select individuals with integrity who have: (QC 10.39)

- The capacity to develop the competence and capabilities needed to perform the firm's work.
- Characteristics that enable them to perform competently, such as:
 - Meeting the minimum academic requirements established by the firm.
 - Exhibiting integrity, maturity, and leadership traits.

Capabilities and Competencies. The *human resources* element of SQCS No. 7 addresses competencies and capabilities together. It explains that these are the knowledge, skills, and abilities that qualify personnel to perform engagements and that, overall, competency is qualitative rather than quantitative. (QC 10.40) SQCS No. 7 states that capabilities and competencies are gained through a variety of methods, such as professional education, continuing professional development and training, work experience, and mentoring.

Competencies of the Engagement Partner. SQCS No. 7 specifically addresses the competencies and responsibilities of engagement partners [i.e., the persons responsible for supervising engagements and signing (or authorizing another person to sign) reports and who, when required, have appropriate authority from a professional, legal, or regulatory body]. Quality control policies and procedures should provide reasonable assurance that engagement partners have the competencies necessary to fulfill engagement responsibilities. (QC 10.42) A firm should assign responsibility for each engagement to an engagement partner and establish policies and procedures requiring: (QC 10.49)

- The identity and role of the engagement partner to be communicated to client management and those charged with governance.
- The engagement partner to have the appropriate capabilities, competence, authority, and time to perform the role.
- The engagement partner's responsibilities to be clearly defined and communicated to him or her.

Required competencies for engagement partners, in addition to other competencies that might be necessary in the circumstances, include the following: (QC 10.45)

- An understanding of the role of the firm's quality control system and the AICPA's *Code of Professional Conduct*.
- An understanding of the services to be performed and the engagement's performance, supervision, and reporting aspects.
- An understanding of the applicable professional standards including standards directly related to the industry in which a client operates and the kinds of transactions in which a client engages (i.e., technical proficiency).
- An understanding of the industry in which a client operates, to the extent required by professional standards applicable to the kind of service being performed.
- Skills that indicate sound professional judgment, such as the ability to exercise professional skepticism and identify areas requiring special consideration.
- An understanding of the organization's information technology systems sufficient to determine when involvement of an IT professional is necessary for an audit engagement.

Assignment of Engagement Teams. While the engagement partner serves an important and vital role in an engagement, a firm should address all staff members' engagement roles and should establish policies and procedures for assigning appropriate staff who possess the necessary capabilities, competence, and time to: (QC 10.51)

- Perform engagements that comply with professional standards and regulatory and legal requirements.
- Enable the issuance of reports that are appropriate in the circumstances.

Professional Development. SQCS No. 7 explains that effective policies and procedures emphasize the need for personnel at all levels to take part in general and industry-specific continuing professional education, as well as other professional development activities that enable them to (a) fulfill their assigned responsibilities and (b) satisfy applicable continuing professional education requirements. Effective policies and procedures also place importance on passing the Uniform CPA Examination. (QC 10.54)

Performance Evaluation, Compensation, and Advancement. Policies and procedures should provide that personnel selected for advancement have the qualifications needed to fulfill their new responsibilities. (QC 10.55) Effective performance evaluation, compensation, and advancement procedures recognize and reward developing and maintaining competence and a commitment to ethical principles. Steps a firm might take in developing and maintaining competence and a commitment to ethical principles include: (QC 10.56)

- Making personnel aware of performance and ethical expectations.
- Evaluating and counseling personnel on performance, progress, and career development.
- Helping personnel understand that compensation and advancement depend on performance quality and adherence to ethical principles, among other things, and that failure to comply with the firm's policies and procedures might lead to disciplinary action.

Engagement Performance

A firm's quality control policies and procedures should be designed to provide reasonable assurance that work is consistently performed in accordance with professional standards, regulatory requirements, and legal requirements, and that appropriate reports are issued. The policies and procedures should cover the following aspects of each engagement: (QC 10.57)

- Engagement performance.

- Supervision.
- Review.

As part of the engagement performance element, SQCS No. 7 also establishes requirements for policies and procedures related to:

- Documentation.
- Consultation.
- Differences of opinion.
- Engagement quality control review.

Engagement Performance. SQCS No. 7 explains that effective policies and procedures for engagement performance might address matters such as: (QC 10.58)

- Briefing engagement teams to give them an understanding of the objectives of their work.
- Processes for complying with applicable engagement standards.
- Processes for engagement supervision, staff training, and mentoring.
- Methods for reviewing the work, significant judgments made, and type of report issued.
- Appropriate documentation of the work and of the timing and extent of the review.
- Appropriate communication of engagement results.
- Processes for keeping policies and procedures current.

Supervision. SQCS No. 7 explains that policies and procedures for engagement supervision might include matters such as: (QC 10.59)

- Tracking engagement progress.
- Considering the capabilities and competence of engagement team members, whether they have adequate time available, whether they understand their instructions, and whether the work is being performed as planned.
- Considering the significance of issues that arise during the engagement and appropriately modifying the planned approach.
- Identifying matters for consultation with or consideration by more experienced members of the engagement team.

Review. Policies and procedures for review responsibility should be determined so that qualified engagement team members review work performed by other team members on a timely basis. (QC 10.60) A review might include considering whether: (QC 10.61)

- The work was performed in accordance with professional standards and regulatory and legal requirements.
- Significant findings and issues were raised for further consideration.
- Appropriate consultations occurred and the resulting conclusions were documented and implemented.

- The nature, timing, and extent of work performed was appropriate and did not need revision.
- The work performed supports the conclusions reached and is appropriately documented.
- Sufficient, appropriate evidence was obtained to support the report.
- The objectives of the engagement procedures were achieved.

Documentation. A firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation. (QC 10.63) For example, appropriate and reasonable controls for engagement documentation might: (QC 10.65)

- Clearly indicate when and by whom engagement documentation was prepared or reviewed.
- Protect the integrity of the information at all stages of the engagement and prevent unauthorized changes to the documentation.
- Allow access to the documentation by the engagement team and other authorized parties as necessary to properly perform their responsibilities.

A firm should establish procedures designed to maintain the integrity, accessibility, and retrievability of documentation that is electronically scanned or copied to another media. (QC 10.67) For example, these procedures might address: (QC 10.68)

- Generating scanned copies that contain the entire content of the original paper documentation, including manual signatures, cross-references, and annotations.
- Integrating scanned copies into the engagement files, including indexing and initializing the copies.
- Providing for retrieval and printing of scanned copies.

There may be legal, regulatory, or other reasons to retain original paper documentation.

Assembly of Engagement Files. A firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the reports have been released. Professional standards, laws, or regulations may prescribe the required completion date for specific types of engagements. (QC 10.62)

Retention of Engagement Documentation. A firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm, professional standards, laws, and regulations. (QC 10.69)

Consultation. Consultation includes discussion, at the appropriate professional level, with firm personnel or individuals outside the firm who have relevant expertise. Policies and procedures should be designed to provide reasonable assurance that: (QC 10.72)

- Consultation takes place when appropriate (such as for complex, unusual, unfamiliar, difficult, or contentious issues).
- Sufficient, appropriate resources are available to enable appropriate consultation.
- All relevant known facts are provided to the persons consulted.
- The nature and scope of consultations are documented, and are understood by both the individual seeking consultation and the person consulted.
- Conclusions resulting from consultations are documented and implemented.

Consultation procedures should provide for consultation with those having appropriate knowledge, seniority, and experience on significant technical, ethical, and other matters, and for appropriate documentation and implementation of conclusions resulting from consultations. Appropriate documentation is sufficiently complete and detailed to convey the consultation issue and the results of the conclusion including decisions made and the basis for those decisions and how they were implemented. Before using external advisory services provided by other firms, a firm should evaluate whether the external provider is qualified for that purpose. (QC 10.75–.76)

Differences of Opinion. Policies and procedures for addressing and resolving differences of opinion within the engagement team, with those consulted, or between the engagement partner and the engagement quality control reviewer should require that: (QC 10.78)

- Conclusions reached be documented and implemented.
- Release of the report be delayed until the matter is resolved.

Engagement Quality Control Review. Firms should establish criteria against which all engagements are to be evaluated to determine whether an engagement quality control review should be performed. The engagement quality control review should be (a) completed before the report is released and (b) conducted in a timely manner so that significant issues may be promptly resolved before the report is released. Policies and procedures should also require that the engagement partner remain responsible for the engagement and its performance, regardless of the involvement of a quality control reviewer. (QC 10.80 – .82)

Nature and Extent of the Engagement Quality Control Review. Engagement quality control review procedures should include the following: (QC 10.85–.87)

- Objectively evaluating the significant judgments made by the engagement team and the conclusions reached.
- Reviewing selected engagement documentation relating to significant judgments and the conclusions reached.
- Discussing significant findings and issues with the engagement partner.
- Reading the financial statements or other subject matter information and the report and considering whether the report is appropriate.

Policies and procedures should also address differences of opinion if the engagement quality control reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction. (QC 10.91)

Eligibility of Engagement Quality Control Reviewers. Policies and procedures should address the appointment of engagement quality control reviewers and the technical qualifications they need. (QC 10.92) A firm should also establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer, including a requirement for the engagement quality control reviewer to meet independence requirements for the engagements reviewed. (QC 10.94) Policies and procedures should provide for replacement of the engagement quality control reviewer if the reviewer's ability to perform an objective review has been impaired. (QC 10.97)

Documentation of the Engagement Quality Control Review. A firm should establish policies and procedures that provide for appropriate documentation of the engagement quality control review, including that: (QC 10.99)

- The procedures required by the firm's policies on engagement quality control review were performed.
- The engagement quality control review was completed before the report was released.
- The reviewer is not aware of any unresolved matters that would cause him or her to believe that significant judgments and conclusions made by the engagement team were not appropriate.

Monitoring

Monitoring is a firm's ongoing consideration and evaluation of its quality control system to obtain reasonable assurance that the system is designed appropriately and operating effectively. (QC 10.05) Some monitoring procedures might be accomplished through: (QC 10.104)

- Engagement quality control review.
- Post-issuance review of engagement documentation, reports, and client financial statements for selected engagements.
- Inspection.

Engagement quality control reviews and post-issuance reviews primarily focus on reviewing documentation related to client engagements. Decisions made specific to the engagement, such as acceptance and continuance and independence considerations, are also part of engagement monitoring.

While engagement quality control reviews and post-issuance reviews can serve as monitoring procedures, more than these are needed. Monitoring procedures related to administrative and other functions are also needed.

Quality control policies and procedures for monitoring should be designed to provide reasonable assurance that the policies and procedures for the system of quality control are relevant, adequate, operating effectively, and complied with in practice. The policies and procedures should: (QC 10.100)

- Include ongoing consideration and evaluation of the quality control system to determine whether it is designed appropriately and operating effectively.
- Assign monitoring responsibility to one or more partners or other persons with sufficient and appropriate experience and authority in the firm.
- Assign the performance of monitoring to qualified individuals.

Monitoring Procedures. Policies should require performing monitoring procedures that are sufficiently comprehensive to enable a firm to assess compliance with all applicable professional standards and regulatory requirements and with its quality control policies and procedures. Monitoring procedures include: (QC 10.102)

- Reviewing selected administrative and personnel records pertaining to quality control elements.
- Reviewing engagement documentation, reports, and client financial statements.
- Conducting discussions with firm personnel.
- Summarizing at least annually, findings from monitoring procedures and considering systemic causes of findings that indicate a need for improvements.
- Determining corrective actions to be taken or improvements to be made relative to specific engagements reviewed or to the firm's quality control policies and procedures.
- Communicating findings to appropriate firm management.
- Considering the findings by appropriate management and management's determination that any necessary actions are taken on a timely basis.

Monitoring procedures also include assessing: (QC 10.103)

- The appropriateness of a firm's guidance materials and practice aids.

- New developments in professional standards and regulatory and legal requirements, including how they are reflected in the policies and procedures.
- Compliance with independence policies and procedures.
- The effectiveness of continuing professional development, including training.
- Decisions related to acceptance and continuance of client relationships and specific engagements.
- The understanding by firm personnel of the quality control policies and procedures, including their implementation.

Engagement Quality Control Review. In addition to serving as an engagement performance quality control procedure, an EQCR helps to satisfy the monitoring requirement for ongoing evaluation. Because an EQCR evaluates the significant judgments made by the engagement team and the conclusions they reached in formulating the report, an EQCR can provide assurance as to whether reports issued by the firm are appropriate in the circumstances. Additionally, evaluation of significant judgments made by the engagement team as part of the EQCR may provide validation that quality control procedures over differences of opinion and consultation are operating effectively.

Post-issuance Review. Post-issuance reviews are not specifically defined by SQCS No. 7, other than to characterize them as monitoring procedures involving a review of engagement documentation, reports, and client financial statements for selected engagements.

Inspection. Inspection entails a retrospective evaluation of a firm's quality control policies and procedures and the extent of compliance with them. (QC 10.05) The scope or conclusions of regulatory inspections or a peer review can be considered when determining the scope of inspections. Also, the selection can be performed on a cyclical basis. For example, in firms with multiple partners, engagements selected for inspection might include at least one engagement for each engagement partner over a three-year inspection cycle. (However, because annual communication of monitoring results is required, monitoring procedures should be performed at least annually.) When selecting engagements for inspection, some may be selected without prior notification to the engagement team.

The need for and extent of inspection procedures depend on the existence and effectiveness of other monitoring procedures and consideration of factors such as the following: (QC 10.106)

- The nature and complexity of the firm's practice and organization, and risks associated with clients and specific engagements.
- The size of the firm and the number and geographical location of offices.
- The results of previous monitoring procedures.
- The authority that offices and personnel have (for example, whether individual offices conduct their own inspections or whether only the head office can conduct them).

Inspection procedures related to the engagement performance element of a quality control system are especially appropriate if the firm has more than a few partners responsible for the accounting and auditing practice. (QC 10.108)

Monitoring in Small Firms. QC 10.109–.110 provides the following special considerations for small firms with a limited number of personnel with sufficient and appropriate experience and authority:

- The small number of personnel with sufficient and appropriate experience and authority may mean that monitoring procedures need to be performed by the same persons responsible for compliance with the quality control policies and procedures. However, the monitoring may need to be performed by another qualified person if conditions change, such as if there is a significant change in firm size or if clients are obtained in an industry new to the firm.

- When individuals inspect their own compliance, the firm has a higher risk of not detecting noncompliance. Thus, it may be beneficial to have a qualified individual outside the firm perform inspection procedures.

Deficiencies. A firm should evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they require prompt corrective action. (QC 10.111) Some instances noted may not be indicators that the quality control system is insufficient to provide reasonable assurance that the firm complies with professional standards and regulatory and legal requirements and issues appropriate reports. On the other hand, some deficiencies identified might be systemic, repetitive, or other significant deficiencies that require prompt corrective action.

Deficiencies and recommendations for appropriate remedial action should be communicated to appropriate engagement partners and other personnel. (QC 10.113) Evaluation of each type of deficiency should result in recommendations for one or more of the following: (QC 10.114)

- Taking appropriate remedial action in relation to an individual engagement or member of personnel.
- Communicating findings to persons responsible for training and professional development.
- Changing quality control policies and procedures.
- Taking disciplinary action against those who do not comply with the firm's policies and procedures.

When monitoring procedures indicate that a report may be inappropriate or that required procedures were omitted, a firm should determine appropriate further action related to complying with relevant professional standards and regulatory and legal requirements. A firm may also consider obtaining legal advice. (QC 10.115)

Communicating Results of Monitoring Procedures. The results of the monitoring procedures should be communicated at least annually to relevant engagement partners and other appropriate individuals within a firm, including a firm's leadership. The communication should enable prompt and appropriate action in accordance with individuals' roles and responsibilities and provide a basis for reliance on the quality control system. Information to be communicated includes: (QC 10.116)

- A description of the monitoring procedures performed.
- Conclusions drawn from the monitoring procedures.
- A description of any systemic, repetitive, or other significant deficiencies and the actions taken to resolve or amend the deficiencies.

When reporting identified deficiencies to someone other than the relevant engagement partner, it is not necessary to identify the specific engagements concerned unless required in order for such persons to properly discharge their responsibilities.

Documentation of Monitoring. A firm should establish policies and procedures requiring appropriate documentation of monitoring. Appropriate documentation includes: (QC 10.118)

- Monitoring procedures, including the procedure for selecting engagements for inspection.
- A record of the evaluation of:
 - Adherence to professional standards and regulatory and legal requirements.
 - Whether the quality control system was appropriately designed and effectively implemented.
 - Whether the quality control policies and procedures have been operating effectively, so that reports are appropriate in the circumstances.
- Identification of the deficiencies, evaluation of their effect, and the basis for determining whether and what further action is necessary.

The Relationship of Peer Review to Monitoring. A peer review is not a substitute for monitoring procedures. However, a peer review conducted under AICPA standards may substitute for some or all inspection procedures for the period covered by the review. (QC 10.119)

Complaints and Allegations. Policies and procedures should be designed to provide reasonable assurance that a firm deals appropriately with: (QC 10.120)

- Complaints and allegations that the work does not comply with professional standards and regulatory and legal requirements.
- Allegations of noncompliance with the quality control system.
- Deficiencies in the design or operation of the quality control policies and procedures, or noncompliance with the quality control system by one or more persons, as identified when investigating complaints and allegations.

In dealing with complaints and allegations, a firm should: (QC 10.121–.124)

- Establish policies and procedures requiring documentation of complaints and allegations, and the responses to them.
- Establish clearly defined channels for personnel to raise any concerns without fear of reprisal.
- Require that investigations of complaints and allegations be supervised by a person with sufficient and appropriate experience and authority who is not otherwise involved in the engagement. Policies and procedures may require using legal counsel in the investigation. Small firms and sole practitioners may use the services of a qualified external person or another firm to carry out the investigation.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

26. Which of the following individuals within the firm's leadership is required by the SQCS No. 7 element, *leadership responsibilities for quality within the firm*, to assume ultimate responsibility for the quality control system?
 - a. The firm's individual directly responsible for overseeing quality control.
 - b. The firm's manager of quality control.
 - c. The firm's managing partner, CEO, or the board.
27. How often should a firm obtain written confirmation, in paper or electronic form, from all firm personnel required to be independent by the AICPA *Code of Professional Conduct*, the rules of state boards of accountancy, and applicable regulatory agencies, of compliance with its independence policies and procedures?
 - a. Semi-annually.
 - b. Annually.
 - c. Bi-annually.
28. Competencies and capabilities are addressed together in the *human resources* element of SQCS No. 7. Competencies and capabilities are the knowledge, skills, and abilities that qualify personnel to perform engagements and that, overall, competency is:
 - a. Quantitative.
 - b. Qualitative.
29. According to SQCS No. 7, effective policies and procedures stress the need for personnel at all levels to take part in general and industry-specific continuing professional education and other professional development activities that enable them to do two things. Which of the following is one of those?
 - a. Qualify for advancement within the firm.
 - b. Fulfill applicable continuing professional education requirements.
30. Engagement teams should complete the assembly of final engagement files in which of the following timeframes?
 - a. Within 45 days after the reports have been released.
 - b. On a timely basis after the reports have been released.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. (References are in parentheses.)

26. Which of the following individuals within the firm's leadership is required by the SQCS No. 7 element, *leadership responsibilities for quality within the firm*, to assume ultimate responsibility for the quality control system? **(Page 132)**
- a. The firm's individual directly responsible for overseeing quality control. [This answer is incorrect. The firm's individual directly responsible for overseeing quality control is generally not a part of the firm's leadership and would not be the appropriate party to assume ultimate responsibility for the quality control system per QC 10.15 – .18.]
 - b. The firm's manager of quality control. [This answer is incorrect. The firm's manager of quality control will not normally be part of the firm's leadership and, therefore, not be whom SQCS No. 7 requires to assume the ultimate responsibility for the quality control system per QC 10.15 – .18.]
 - c. **The firm's managing partner, CEO, or the board. [This answer is correct. SQCS No. 7 requires the firm's leadership, such as the managing partner, CEO, or the board of directors, to be ultimately responsible for the quality control system per QC 10.15 – .18.]**
27. How often should a firm obtain written confirmation, in paper or electronic form, from all firm personnel required to be independent by the AICPA *Code of Professional Conduct*, the rules of state boards of accountancy, and applicable regulatory agencies, of compliance with its independence policies and procedures? **(Page 133)**
- a. Semi-annually. [This answer is incorrect. Written confirmation of compliance with a firm's independence policies and procedures is not required as frequently as semi-annually per QC 10.24.]
 - b. **Annually. [This answer is correct. A firm should obtain written confirmation at least annually of compliance with its independence policies and procedures per QC 10.24.]**
 - c. Bi-annually. [This answer is incorrect. Written confirmation of compliance with a firm's independence policies and procedures is required more frequently than bi-annually per QC 10.24.]
28. Competencies and capabilities are addressed together in the *human resources* element of SQCS No. 7. Competencies and capabilities are the knowledge, skills, and abilities that qualify personnel to perform engagements and that, overall, competency is: **(Page 135)**
- a. Quantitative. [This answer is incorrect. Competency is not based on the volume of knowledge, skills, and abilities that qualify personnel to perform engagements, but rather on how those competencies and capabilities are applied per QC 10.40.]
 - b. **Qualitative. [This answer is correct. The quality manner in which the competencies and capabilities are applied is important when performing engagements, not the number of engagements per QC 10.40.]**
29. According to SQCS No. 7, effective policies and procedures stress the need for personnel at all levels to take part in general and industry-specific continuing professional education and other professional development activities that enable them to do two things. Which of the following is one of those? **(Page 135)**
- a. Qualify for advancement within the firm. [This answer is incorrect. Continuing professional education enables personnel to fulfill their assigned responsibilities, but may not have any bearing on advancement per QC 10.40.]
 - b. **Fulfill applicable continuing professional education requirements. [This answer is correct. Taking part in general and industry-specific continuing professional education and other professional**

development activities enables all personnel to satisfy applicable continuing professional education requirements established by each state board of public accountancy per QC 10.40.]

30. Engagement teams should complete the assembly of final engagement files in which of the following timeframes? **(Page 138)**
- a. Within 45 days after the reports have been released. [This answer is incorrect. A firm's policies and procedures regarding a specific number of days for completion of the assembly of final engagement files after the reports have been released will most likely be related to professional standards, laws or regulations per QC 10.62.]
 - b. **On a timely basis after the reports have been released. [This answer is correct. Per QC 10.62, a firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the reports have been released.]**

EXAMINATION FOR CPE CREDIT**Lesson 2 (GASTG092)**

Determine the best answer for each question below. Then mark your answer choice on the **Examination for CPE Credit Answer Sheet** located in the back of this workbook or by logging onto the Online Grading System.

22. Statements on Quality Control Standards (SQCS) apply to all of the following services **except**:
- a. Attestation.
 - b. Compilation.
 - c. Consulting.
 - d. Review.
23. An individual who has the authority to bind the firm with respect to the performance of a professional services engagement is known as:
- a. Partner.
 - b. Engagement partner.
 - c. Qualified external person.
 - d. Engagement quality control reviewer.
24. Under SQCS No. 7, the nature of a firm's quality control policies and procedures will depend on a number of factors. If applicable, the quality control system should be designed to provide reasonable assurance that portions of engagements performed by the firm's foreign offices, foreign member firms, or foreign affiliates are performed in accordance with which of the following standards?
- a. U.S. professional standards.
 - b. Applicable foreign professional standards.
 - c. Either U.S. or foreign professional standards, as applicable.
 - d. Do not select this answer choice.
25. SQCS No. 7 indicates that a firm's effective communication of quality control policies and procedures to its personnel should include a number of actions. Which of the following is **not** a requirement of such communication?
- a. Conveying that each individual has a personal responsibility for quality.
 - b. Describing in writing the policies and procedures and their objectives.
 - c. Stressing the importance of obtaining feedback about the quality control system.
 - d. Encouraging personnel to communicate their views or concerns regarding quality control matters.

26. Which of the following is **not** one of the presumptively mandatory requirements for leadership responsibilities for quality with a firm established by SQCS No. 7?
- a. A firm should promote an internal culture that understands that quality is fundamental to performing engagements.
 - b. A firm should establish policies and procedures that promote a culture of quality.
 - c. A firm's management responsibilities should be assigned so that only commercial considerations will take precedence over the quality of work.
 - d. A firm's leadership should assume ultimate responsibility for the quality control system.
27. SQCS No. 7 replaces the former quality control element called "Independence, Integrity, and Objectivity" with an element titled "Relevant Ethical Requirements," which primarily discusses:
- a. Independence.
 - b. Integrity.
 - c. Objectivity.
 - d. Overall quality control.
28. Which of the following factors would be inconsequential when evaluating a client's integrity?
- a. The nature of the client's operations and its business practices.
 - b. The number of firms the client has previously done business with.
 - c. The length of the relationship with the client.
 - d. The attitude of the client regarding aggressive accounting and internal control over financial reporting.
29. *Required competencies* for engagement partners should include which of the following?
- a. An understanding of the role of the firm's quality control system and the AICPA's *Code of Professional Conduct*.
 - b. An understanding of the firms' ethical requirements under AICPA Ethics Interpretation No. 102-2, *Conflicts of Interest*.
 - c. Do not select this answer choice.
 - d. Do not select this answer choice.
30. Consultation includes discussion with firm personnel or individuals outside the firm who have relevant expertise. Policies and procedures should be designed to provide reasonable assurance that consultation takes place when?
- a. With every engagement.
 - b. Only when appropriate.
 - c. Do not select this answer choice.
 - d. Do not select this answer choice.

GLOSSARY

Accounts Payable: List of debts currently owed by a person or business. These are debts incurred mainly for the purchase of services, inventory, and supplies. The accounts normally do not include accrued salaries payable, accrued interest payable, or rent payable.

Accounts Receivable: List of money owed on current accounts to a creditor, which is kept in the normal course of the creditor's business and represents unsettled claims and transactions. Accounts receivable normally arise from the sale of a company's products or services to its customers.

Compilation: Presentation of financial statement information by the entity without the accountant's assurance as to conformity with generally accepted accounting principles (GAAP). In performing this accounting service, the accountant must conform to the American Institute of Certified Public Accountants (AICPA) Statements on Standards for Accounting and Review Services (SSARS).

Financial Position: Status of a firm's assets, liabilities, and equity accounts as of a certain time, as shown on its financial statement.

Financial Statement: Written record of the financial status of an individual, association, or business organization. The financial statement includes a balance sheet and an income statement (or operating statement or profit and loss statement) and may also include a statement of changes in working capital and net worth.

Generally Accepted Accounting Principles (GAAP): Conventions, rules and procedures that define accepted accounting practice, including broad guidelines as well as detailed procedures.

SSARS: Statements on Standards for Accounting and Review Services. SSARS provide guidance concerning the standards and procedures applicable to the compilation and review of financial statements. By definition, presentations of specified elements, accounts, or items of a financial statement or pro forma financial information are not financial statements.

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TESTING INSTRUCTIONS FOR EXAMINATION FOR CPE CREDIT

Companion to PPC's Guide to GAAS—Course 1—Accounting and Review Services Performance Standards (GASTG091)

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Please indicate your answer by filling in the appropriate circle as shown: Fill in like this ☒ not like this ☐ ☐ ☒ .

a	b	c	d	a	b	c	d	a	b	c	d	a	b	c	d
1. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	9. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	17. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	24. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	10. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	18. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	25. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	11. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	19. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	26. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	12. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	20. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	27. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	13. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	21. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	28. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	14. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	22. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	29. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	15. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	23. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	30. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	16. <input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>								

You may complete the exam online by logging onto our online grading system at **OnlineGrading.Thomson.com**, or you may fax completed Examination for CPE Credit Answer Sheet and Course Evaluation to Thomson Reuters at (817) 252-4021, along with your credit card information.

Expiration Date: December 31, 2010

Self-study Course Evaluation

Please Print Legibly—Thank you for your feedback!

Course Title: Companion to PPC's Guide to GAAS—Course 2—Accounting and Review Services Reporting Standards and Quality Control Standards for GAAS

Course Acronym: GASTG092

Your Name (optional): _____ Date: _____

Email: _____

Please indicate your answers by filling in the appropriate circle as shown:

Fill in like this ☒ not like this ☐ ☐ ☒.

Satisfaction Level:	Low (1) . . . to . . . High (10)									
	1	2	3	4	5	6	7	8	9	10
1. Rate the appropriateness of the materials for your experience level:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. How would you rate the examination related to the course material?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Does the examination consist of clear and unambiguous questions and statements?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. Were the stated learning objectives met?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. Were the course materials accurate and useful?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. Were the course materials relevant and did they contribute to the achievement of the learning objectives?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7. Was the time allotted to the learning activity appropriate?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8. If applicable, was the technological equipment appropriate?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9. If applicable, were handout or advance preparation materials and prerequisites satisfactory?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10. If applicable, how well did the audio/visuals contribute to the program?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please provide any constructive criticism you may have about the course materials, such as particularly difficult parts, hard to understand areas, unclear instructions, appropriateness of subjects, educational value, and ways to make it more fun. Please be as specific as you can.

(Please print legibly):

Additional Comments:

1. What did you find **most** helpful? _____
2. What did you find **least** helpful? _____
3. What other courses or subject areas would you like for us to offer? _____
4. Do you work in a Corporate (C), Professional Accounting (PA), Legal (L), or Government (G) setting? _____
5. How many employees are in your company? _____
6. May we contact you for survey purposes (Y/N)? If yes, please fill out contact info at the top of the page. **Yes/No** ☐ ☐

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