

University of Mississippi

eGrove

---

AICPA Professional Standards

American Institute of Certified Public  
Accountants (AICPA) Historical Collection

---

10-2016

## **Omnibus Statement on Standards for Accounting and Review Services - 2016; Statement on Standards for Accounting and Review Services 23**

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

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_prof](https://egrove.olemiss.edu/aicpa_prof)



Part of the [Accounting Commons](#)

---



***Statement on  
Standards for  
Accounting and  
Review Services***

*October 2016*

**23**

*Issued by the Accounting and Review Services Committee*

***OMNIBUS STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW  
SERVICES – 2016***

*(To amend paragraphs .01, .03, .06, .25, .A19, .A24, .A31, and .A36; add new paragraphs .17, .A1, and .A9; and delete paragraphs .A1-.A3 of AR-C section 60, General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services [AICPA, Professional Standards]; to amend paragraphs .01, .10, .14, .A1, and .A9; and add new paragraphs .19 and .A1-.A2 of AR-C section 70, Preparation of Financial Statements [AICPA, Professional Standards]; to amend paragraphs .01, .05, .10, .29, .30, .A1, and .A9; add new paragraphs .24-.25, .A1-.A2, and .A4; and delete paragraph .A20 of AR-C section 80, Compilation Engagements [AICPA, Professional Standards]; and to amend paragraphs .01, .05, .11, .39g, .80-.82, .A17, and .A129-.A131; add new paragraphs .A1 and .A11-.A12; and delete paragraph .A128 of AR-C section 90, Review of Financial Statements [AICPA, Professional Standards])*

*Copyright © 2016 by  
American Institute of Certified Public Accountants, Inc.  
New York, NY 10036-8775*

*All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please email [copyright@aicpa.org](mailto:copyright@aicpa.org) with your request. Otherwise, requests should be written and mailed to the Permissions Department, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.*

*1 2 3 4 5 6 7 8 9 0 AAS 1 9 8 7 6*

## *Summary*

This standard amends AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* (AICPA, *Professional Standards*) as follows:

- Revises the applicability so that Statements on Standards for Accounting and Review Services (SSARSs) apply to engagements performed on subject matter other than financial statements
- Includes definitions of *financial statements* and *prospective financial information*, harmonizes the definitions of *engagement team* and *professional judgment* to those included in the clarified auditing standards, and clarifies the definition of *other preparation, compilation, and review publications*
- Includes a mandatory requirement for the accountant to document the justification for a departure from a relevant presumptively mandatory requirement and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of the requirement
- Revises the requirement for the accountant to obtain the agreement of management that it acknowledges and understands its responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, so that the requirement does not apply if the accountant decides to accept responsibility for such internal control

This standard amends AR-C section 70, *Preparation of Financial Statements* (AICPA, *Professional Standards*) as follows:

- Expands the subject matter to which the section should be applied to include prospective financial information and to clarify
  - when the section applies;
  - when the section may be applied; and
  - when the section does not apply
- Clarifies that AICPA Guide *Prospective Financial Information* provides comprehensive guidance regarding prospective financial information including suitable criteria for the preparation and presentation of prospective financial information and clarifies that the accountant is not prohibited from preparing

prospective financial information prepared and presented in accordance with other suitable criteria

- Clarifies the nature of an engagement letter and makes clear that an oral understanding of the terms of the engagement is insufficient
- Clarifies that when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the financial statements that the accountant may withdraw from the engagement
- Includes a requirement that because the summary of significant assumptions is essential to the user’s understanding of prospective financial information, the accountant should not prepare prospective financial information that excludes disclosure of the summary of significant assumptions or a financial projection that excludes either
  - an identification of the hypothetical assumptions or
  - a description of the limitations on the usefulness of the presentation

This standard amends AR-C section 80, *Compilation Engagements* (AICPA, *Professional Standards*) as follows:

- Expands the subject matter to which the section should be applied to include prospective financial information, pro forma financial information, and other historical financial information
- Clarifies that AICPA Guide *Prospective Financial Information* provides comprehensive guidance regarding prospective financial information including suitable criteria for the preparation and presentation of prospective financial information; and clarifies that the accountant is not prohibited from performing a compilation engagement on prospective financial information prepared and presented in accordance with other suitable criteria
- Clarifies the nature of an engagement letter and to make clear that an oral understanding of the terms of the engagement is insufficient
- Harmonizes guidance with respect to the requirement that the accountant’s compilation report include the signature of the accountant or the accountant’s firm with that included in AR-C section 90 for an accountant’s review report
- Includes requirements when the accountant is issuing a compilation report on prospective financial information

- Clarifies that the accountant is required to disclose known departures from the applicable financial reporting framework in the accountant's compilation report and that when the accountant becomes aware of a departure from the applicable financial reporting framework that is material to the financial statements and the financial statements are not revised, the accountant is required to consider whether modification of the standard report is adequate to disclose the departure

This standard amends AR-C section 90, *Review of Financial Statements* (AICPA, *Professional Standards*) as follows:

- Clarifies that AR-C section 90 applies to reviews of all historical financial information, excluding pro forma financial information
- Clarifies the definition of *supplementary information*
- Clarifies the nature of an engagement letter and makes clear that an oral understanding of the terms of the engagement is insufficient
- Revises the requirement that the engagement letter or other suitable form of written agreement be signed by
  - the accountant or the accountant's firm and
  - management or those charged with governance as appropriate
 to use language consistent with that used in corresponding paragraphs in AR-C section 70 and AR-C section 80
- Harmonizes the requirement that the accountant's review report include the signature of the accountant or the accountant's firm with that included in AR-C section 80 for an accountant's compilation report
- Revises the accountant's reporting responsibilities when supplementary information accompanies reviewed financial statements and the accountant's review report thereon

## **Effective Dates**

The revisions to AR-C section 60 and AR-C section 90 are effective upon issuance.

The revisions to AR-C section 70 are effective upon issuance with the exception of the revisions to paragraphs .01 and .A1 and new paragraphs .19 and .A1–.A2, which are effective for prospective financial information prepared on or after May 1, 2017.

The revisions to AR-C section 80 are effective upon issuance with the exception of the revisions to paragraphs .01 and .A1 and new paragraphs .24–.25, .A1–.A2, and .A5 which are effective for compilation reports on prospective financial information dated on or after May 1, 2017.



## Accounting and Review Services Committee

(2015–2016)

Mike Fleming, *Chair*  
Denny F. Ard  
Sheila Balzer  
Jimmy E. Burkes

Jeremy Dillard  
M. Aron Dunn  
Kelly J. Hunter

(2014–2015)

Michael L. Brand, *Chair*  
Joseph S. Beck  
Jeremy Dillard  
M. Aron Dunn

Mike Fleming  
Janice L. Gray  
Kelly J. Hunter

(2013–2014)

Michael L. Brand, *Chair*  
Joseph S. Beck  
M. Aron Dunn

Janice L. Gray  
Mike Fleming  
Kelly J. Hunter

(2012–2013)

Michael L. Brand, *Chair*  
Joseph S. Beck  
Mike Fleming  
Jay H. Goldberg

Janice L. Gray  
Angie J. Moss  
Carl G. Peterson  
Thad Scott

## ARSC Prospective Financial Information Task Force

(2014–2015)

Mike Fleming, *Chair*  
Michael L. Brand

David A. Johnson  
Charles J. McElroy

## AICPA Staff

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

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

Richard I. Miller  
*Special Counsel*

**Note:** *Statements on Standards for Accounting and Review Services are issued by the Accounting and Review Services Committee (ARSC), the senior body of the institute designated to promulgate standards under the “General Standards Rule” (AICPA, Professional Standards, ET sec. 1.1300.001) and the “Compliance With Standards Rule” (ET sec. 1.1310.001) of the AICPA Code of Professional Conduct with respect to unaudited financial statements or other unaudited financial information of an entity that is not required to file financial statements with a regulatory agency in connection with the sale or trading of its securities in a public market.*





## CONTENTS

---

Section	Paragraph
<i>60 General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services</i>	
<b>Introduction</b>	
Scope of This Section .....	1-2
Effective Date .....	3
<b>Amendments to AR-C section 60, <i>General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services</i></b> .....	4
 <i>70 Preparation of Financial Statements</i>	
<b>Introduction</b>	
Scope of This Section .....	1-2
Effective Date .....	3
<b>Amendments to AR-C section 70, <i>Preparation of Financial Statements</i></b> .....	4
 <i>80 Compilation Engagements</i>	
<b>Introduction</b>	
Scope of This Section .....	1-2
Effective Date .....	3
<b>Amendments to AR-C section 80, <i>Compilation Engagements</i></b> .....	4
 <i>90 Review of Financial Statements</i>	
<b>Introduction</b>	

Scope of This Section .....	1-2
Effective Date .....	3
<b>Amendments to AR-C section 90, <i>Review of Financial Statements</i> .....</b>	<b>4</b>

# ***Amendments to AR-C section 60, General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services (AICPA, Professional Standards)***

## **Introduction**

### **Scope of This Section**

1. AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services (AICPA, Professional Standards)*, provides general principles for engagements performed in accordance with Statements on Standards for Accounting and Review Services (SSARSs) issued by the Accounting and Review Services Committee (ARSC) and codified into AR-C sections. AR-C section 60 also sets forth the meaning of certain terms used in SSARSs when describing the professional requirements imposed on accountants performing a review, compilation, or an engagement to prepare financial statements.
2. This amendment does the following:
  - a. Revises AR-C section 60 so that it applies to SSARSs engagements performed on subject matter other than financial statements
  - b. Revises paragraph .06 to include definitions of *financial statements* and *prospective financial information*; to harmonize the definitions of *engagement team* and *professional judgment* to that included in the clarified auditing standards; and to clarify the definition of *other preparation, compilation and review publications*
  - c. Includes a mandatory requirement for the accountant to document the justification for a departure from a relevant presumptively mandatory requirement and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of the requirement
  - d. Revises paragraph .25c(ii) so that the requirement for the accountant to obtain the agreement of management that it acknowledges and understands its responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, so that the requirement does not apply if the accountant decides to accept responsibility for such internal control

### **Effective Date**

3. These amendments are effective upon issuance.

## **Amendments to AR-C section 60**

4. The following represents the amendments to AR-C section 60. New language and relocated content are shown in boldface italics; deleted language is shown by strikethrough.

## Introduction

### Scope of This Section

- .01** This section provides general principles for engagements performed in accordance with Statements on Standards for Accounting and Review Services (SSARSs) issued by the Accounting and Review Services Committee (ARSC) and codified into AR-C sections. This section also sets forth the meaning of certain terms used in SSARSs when describing the professional requirements imposed on accountants performing ~~a review, compilation, or an engagement to prepare financial statements~~ ***an engagement in accordance with SSARSs***.
- .02** This section is intended to help accountants better understand their professional responsibilities when performing an engagement in accordance with SSARSs. Additional sections have been established to set forth specific performance and reporting requirements. Such additional requirements are based on the general principles provided by this section, and any requirements created by this section also have been incorporated into the additional sections.
- .03** ~~SSARSs are written in the context of a review, compilation, or an engagement to prepare financial statements by an accountant. They are to be adapted as necessary in the circumstances when applied to reviews, compilations, and engagements to prepare other historical or prospective financial information.~~ SSARSs do not address the responsibilities of the accountant that may exist in legislation, regulation, or otherwise. Such responsibilities may differ from those established in SSARSs. Accordingly, although the accountant may find aspects of SSARSs helpful in such circumstances, it is the responsibility of the accountant to ensure compliance with all relevant legal, regulatory, or professional obligations.
- .04** ***The financial statements subject to the engagement performed in accordance with SSARSs are those of the entity. SSARSs do not impose responsibilities on management and do not override laws and regulations that govern their responsibilities.*** (Ref: par. ~~A1–A10A8~~) [This content is moved from paragraph .07.]

[Extant paragraphs .04–.05 are renumbered to paragraphs .05–.06. The content is unchanged.]

## Definitions

- .0607** For purposes of SSARSs, the following terms have the meanings attributed as follows:

**Engagement partner.**<sup>fn2</sup> The partner or other person in the firm who is responsible for the engagement and its performance and for the report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

**Engagement team.** All accountants *partners* and staff performing the engagement and any individuals engaged by the firm *or a network firm* who perform procedures on the engagement.

*Financial statements. A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term financial statements ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework but can also refer to a single financial statement.*

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

**Interpretive publications.** Interpretations of SSARs; exhibits to SSARs; the AICPA Guide *Compilation and Review Engagements Preparation, Compilation, and Review Engagements*,<sup>fn2</sup> guidance on *preparation*, *reviews*, *compilations*, and *review engagements to prepare financial statements* included in AICPA Audit and Accounting Guides; and AICPA Statements of Position, to the extent that those statements are applicable to such engagements.

**Other preparation, compilation, and review publications.** Publications other than interpretive publications. These include AICPA accounting and review publications not defined as interpretive publications; the AICPA's annual alert *Developments in Review, Compilation, and Financial Statement Preparation Engagements*; articles addressing reviews, compilations, and engagements to prepare financial statements in the *Journal of Accountancy* and other professional journals; continuing professional education programs and other instruction materials, textbooks, guide books, programs for reviews, compilations, and engagements to prepare financial statements, and checklists; and other publications addressing reviews, compilations, and engagements to prepare financial statements from state CPA societies, other organizations, and individuals. (Ref: par. A9)

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

*Prospective financial information. Any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts.*

<sup>fn 2</sup> This term is also defined in paragraph .13 of QC section 10, *A Firm's System of Quality Control* (AICPA, *Professional Standards*), for purposes of the Statements on Quality Control Standards. Refer to QC section 10 for specific language.

<sup>fn2</sup> ~~The title of the 2015 guide will be *Review, Compilation, and Financial Statement Preparation Engagements*.~~

## Requirements

### ***Financial Statements***

~~.07 The financial statements subject to the engagement performed in accordance with SSARSs are those of the entity. SSARSs do not impose responsibilities on management and do not override laws and regulations that govern their responsibilities.~~

[Paragraphs .08–.14 are unchanged.]

## Conduct of an Engagement in Accordance With SSARSs

### ***Defining Professional Responsibilities in SSARSs***

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

- *Unconditional requirements.* The accountant must comply with an unconditional requirement in all cases in which such requirement is relevant. SSARSs use the word “must” to indicate an unconditional requirement.
- *Presumptively mandatory requirements.* The accountant must comply with a presumptively mandatory requirement in all cases in which such a requirement is relevant, except in rare circumstances discussed in paragraph .16. SSARSs use the word “should” to indicate a presumptively mandatory requirement. (Ref: par. ~~A32A3I~~)

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

**.17** *If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.*

[Extant paragraphs .17–.23 are renumbered to paragraphs .18–.24. The content is unchanged.]

## Acceptance and Continuance of Client Relationships and Engagements

- .2425** The accountant should not accept an engagement to be performed in accordance with SSARSs if (Ref: par. .A44)
- a. the accountant has reason to believe that relevant ethical requirements will not be satisfied; (Ref: par. .A45)
  - b. the accountant's preliminary understanding of the engagement circumstances indicates that information needed to perform the engagement is likely to be unavailable or unreliable; or (Ref: par. .A46)
  - c. the accountant has cause to doubt management's integrity such that it is likely to affect the performance of the engagement.
- .2526** As a *precondition* for accepting an engagement to be performed in accordance with SSARSs, the accountant should
- a. determine whether preliminary knowledge of the engagement circumstances indicate that ethical requirements regarding professional competence will be satisfied.
  - b. determine whether the financial reporting framework selected by management to be applied in the preparation of the financial statements is acceptable. (Ref: par. .A47)
  - c. obtain the agreement of management that it acknowledges and understands its responsibility (Ref: par. .A48)
    - i. for the selection of the financial reporting framework to be applied in the preparation of financial statements.
    - ii. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, ***unless the accountant decides to accept responsibility for such internal control.***
    - iii. for preventing and detecting fraud.
    - iv. for ensuring that the entity complies with laws and regulations applicable to its activities.
    - v. for the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the preparation of financial statements.
    - vi. to provide the accountant with (Ref: par. .A4950)
      - (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

- (2) additional information that the accountant may request from management for the purpose of the engagement.
- (3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.

## Application and Other Explanatory Material

### **Financial Statements** (Ref: par. .07)

- ~~.A1~~ The preconditions for the performance of an engagement to prepare financial statements are included in paragraph .25 of this section.
- ~~A2.~~ The preconditions for the performance of a compilation engagement are included in paragraph .25 of this section and paragraph .08 of section 80, *Compilation Engagements*.
- ~~.A3~~ The preconditions for the performance of a review engagement are included in paragraph .25 of this section and paragraphs .08–.09 of section 90, *Review of Financial Statements*.

### *Scope of This Section* (Ref: par. .01 and .04)

- .A1** *If the accountant is engaged to perform a professional service in accordance with SSARs on financial information other than financial statements (for example, the preparation or compilation of prospective financial information or the compilation of pro forma financial information), references in this section to financial statements are to be taken as references to such other financial information.*

### ~~.A4~~A2 The preparation and fair presentation of the financial statements require

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

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

### ~~.A5~~A3 The financial statements may be prepared in accordance with one of the following:

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



**A6A4** The applicable financial reporting framework often encompasses financial accounting standards promulgated by an authorized or recognized standards-setting organization or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial accounting standards promulgated by an authorized or recognized standards-setting organization and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources or may even consist only of such sources. Such other sources may include the following:

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

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

**A7A5** The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficiently broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.

**A8A6** The financial accounting standards promulgated by organizations that are authorized or recognized to promulgate standards to be used by entities for preparing financial statements in accordance with a general purpose framework include the FASB *Accounting Standards Codification*,<sup>®</sup> International Financial Reporting Standards, issued by the International Accounting Standards Board; Statements of Federal Financial Accounting Standards, issued by the Federal Accounting Standards Advisory Board for U.S. federal government entities; and Statements of the Governmental Accounting Standards Board, issued by the Governmental Accounting Standards Board for U.S. state and local governmental entities.

**A9A7** The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance, and cash flows of an entity. For example, a complete set of financial statements might include a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete

set of financial statements. Examples of a single financial statement, each of which would include related notes, include the following:

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

**.A10A8** An accountant may be engaged to prepare or perform a compilation or review engagement on a complete set of financial statements or an individual financial statement (for example, balance sheet only). The financial statements may be for an annual period or for a shorter or longer period, depending on management's needs. However, it is likely not appropriate for the entity to present financial statements for a period longer or shorter than an annual period in a comparative presentation with financial statements for an annual period.

*Definitions (Ref: par. .07)*

**.A9** *Other preparation, compilation, and review publications include*

- *AICPA preparation, compilation, and review publications not defined as interpretive publications;*
- *AICPA's annual alert addressing engagements performed in accordance with SSARSs;*
- *articles addressing preparation, compilation, and review engagements in the Journal of Accountancy and other professional journals;*
- *continuing professional education programs and other instruction materials,*
- *textbooks, guide books, programs for preparation, compilation, and review engagements*
- *checklists; and*
- *other publications addressing preparation, compilation, and review engagements from state CPA societies, other organizations, and individuals.*

[Extant paragraphs .A11–.A14 are renumbered to .A10-.A13. Content is unchanged.]

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

- ~~A15~~A14 Professional judgment is essential to the proper conduct of an engagement in accordance with SSARSs because interpretation of relevant ethical requirements and SSARSs and the informed decisions required throughout the engagement cannot be made without the application of relevant knowledge and experience to the facts and circumstances.
- ~~A16~~A15 The distinguishing feature of the professional judgment expected of the accountant is that it is exercised by an accountant whose training, knowledge, and experience have assisted in developing the necessary competencies to achieve reasonable judgments and make informed decisions about appropriate courses of action when undertaking an engagement in accordance with SSARSs. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assists the accountant in making informed and reasonable judgments.
- ~~A17~~A16 The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known by the accountant throughout the engagement, including
- knowledge acquired from engagements carried out for the entity's financial statements in prior periods, where applicable.
  - the accountant's understanding of the entity and its environment, including its accounting system, and the application of the applicable financial reporting framework in the entity's industry.
  - the extent to which the preparation and presentation of the financial statements requires the exercise of judgment by management or the accountant, if applicable.
- ~~A18~~A17 Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of SSARSs and accounting principles and is appropriate in light of (and consistent with) the facts and circumstances that were known to the accountant up to the date of the issuance of financial statements prepared by the accountant or the date of the accountant's compilation or review report.
- ~~A19~~A18 Professional judgment needs to be exercised throughout the engagement performed in accordance with SSARSs. It also needs to be appropriately documented in accordance with the requirements of *the applicable AR-C* section. ~~70, Preparation of Financial Statements; section 80, Compilation Engagements; or section 90, Review of Financial Statements, as applicable.~~ Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or, in a review engagement, the evidence obtained.

## Conduct of an Engagement in Accordance With SSARSs

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

~~A20~~A19 ARSC is designated to promulgate standards under the “General Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.300.001) and the “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001) of the AICPA Code of Professional Conduct<sup>1</sup> with respect to unaudited financial statements or other unaudited financial information of an entity that is not required to file financial statements with a regulatory agency in connection with the sale or trading of its securities in a public market. ARSC develops and issues standards in the form of SSARs through a process that includes deliberation in meetings open to the public, public exposure of proposed SSARs, and a formal vote. SSARs are codified in AR-C sections in AICPA *Professional Standards*.

~~A21~~A20 SSARs provide the standards used for fulfilling the overall objectives of the accountant’s work. SSARs address the general responsibilities of the accountant as well as the accountant’s further considerations relevant to the application of those responsibilities to specific topics.

~~A22~~A21 The scope, effective date, and any specific limitation of the applicability of a specific AR-C section are made clear in the AR-C section. Unless otherwise stated in the AR-C section, the accountant is permitted to apply an AR-C section before the effective date specified therein.

~~A23~~A22 In certain engagements, the accountant also may be required to comply with other requirements in addition to SSARs. SSARs do not override law or regulation that governs a review, compilation, or an engagement to prepare financial statements. In the event that such law or regulation differs from SSARs, an engagement conducted only in accordance with law or regulation will not necessarily comply with SSARs.

~~A24~~A23 The accountant may also conduct the compilation or review *of financial statements* in accordance with both SSARs and

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

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

~~A25~~A24 SSARs are relevant to engagements to prepare financial statements and compilations and reviews of financial statements of governmental entities. The accountant’s responsibilities, however, may be affected by law, regulation, or other authority (such as government policy requirements or resolutions of the legislature), which may encompass

---

<sup>1</sup> AICPA’s Professional Ethics Executive Committee has restructured the Code of Professional Conduct. References in this standard are to the revised code, which is effective December 15, 2014. It is available at <http://pub.aicpa.org/codeofconduct>.

a broader scope than an engagement in accordance with SSARs. These additional responsibilities are not dealt with in SSARs.

~~A26~~A25 In addition to objectives and requirements, an AR-C section contains related guidance in the form of application and other explanatory material. It may also contain introductory material that provides context relevant to a proper understanding of the AR-C section and definitions. The entire text of an AR-C section, therefore, is relevant to an understanding of the objectives stated in an AR-C section and the proper application of the requirements of an AR-C section.

~~A27~~A26 When necessary, the application and other explanatory material provides further explanation of the requirements of an AR-C section and guidance for carrying them out. In particular, it may

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

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

~~A28~~A27 Appendixes form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related AR-C section or within the title and introduction of the appendix itself.

~~A29~~A28 Introductory material may include, as needed, such matters as explanation of the following:

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

~~A30~~A29 An AR-C section may include, in a separate section under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of SSARs. These are provided to assist in the consistent application and interpretation of SSARs and are not intended to override definitions that may be established for other purposes, whether in law, regulation, or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout SSARs.

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

~~.A31~~A30 Within a relevant AR-C section, there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply, and the condition exists. In some cases, a requirement may be expressed as being conditional on applicable law or regulation. For example, the accountant may be required to withdraw from the review, compilation, or engagement to prepare financial statements when withdrawal is possible under applicable law or regulation, or the accountant may be required to perform a certain action, unless prohibited by law or regulation.

[Extant paragraphs .A32-.A33 are renumbered to .A31-.A32. Content is unchanged.]

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

~~.A34~~A33 Other preparation, compilation, and review publications have no authoritative status; however, they may help the accountant understand and apply SSARs. The accountant is not expected to be aware of the full body of other preparation, compilation, and review publications.

~~.A35~~A34 Although the accountant determines the relevance of these publications in accordance with paragraph .18, the accountant may presume that other preparation, compilation, and review publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are appropriate. These other preparation, compilation, and review publications are listed in the exhibit, “Other Preparation, Compilation, and Review Publications.”

~~.A36~~A35 When determining whether an other preparation, compilation, and review publication that has not been reviewed by the AICPA Audit and Attest Standards staff is appropriate to the circumstances of the engagement, the accountant may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying SSARs and the degree to which the issuer or author is recognized as an authority in matters addressing *preparation, compilation, and* reviews, ~~compilations, and engagements. to prepare financial statements.~~ An ~~Other~~ other preparation, compilation, and review publications that ~~have~~ *has* not been reviewed by the AICPA Audit and Attest Standards staff that contradicts an other preparation, compilation, and review publication that has been reviewed by the AICPA Audit and Attest Standards staff is inappropriate.

## ***Amendments to AR-C section 70, Preparation of Financial Statements (AICPA, Professional Standards)***

### **Introduction**

#### **Scope of This Section**

1. AR-C section 70 applies when an accountant in public practice is engaged to prepare financial statements.

2. This amendment accomplishes the following:
  - a. Revises paragraph .01 to expand the subject matter to which the section should be applied to include prospective financial information and to clarify
    - i. when the section applies,
    - ii. when the section may be applied, and
    - iii. when the section does not apply
  - b. Adds a new paragraph .A2 to clarify that AICPA Guide *Prospective Financial Information* provides comprehensive guidance regarding prospective financial information including suitable criteria for the preparation and presentation of prospective financial information; and to clarify that the accountant is not prohibited from preparing prospective financial information prepared and presented in accordance with other suitable criteria
  - c. Revises paragraphs .10 and .A7 to clarify the nature of an engagement letter and to make clear that an oral understanding of the terms of the engagement is insufficient
  - d. Revises paragraph .14 to clarify that when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the financial statements that the accountant may withdraw from the engagement
  - e. Includes a requirement that states that because the summary of significant assumptions is essential to the user’s understanding of prospective financial information, the accountant should not prepare prospective financial information that exclude disclosure of the summary of significant assumptions or a financial projection that excludes either
    - i. an identification of the hypothetical assumptions or
    - ii. a description of the limitations on the usefulness of the presentation

### **Effective Date**

3. These amendments are effective upon issuance with the exception of the revisions to paragraph .01 and new paragraphs .19 and .A1–.A2 which are effective for prospective financial information prepared on or after May 1, 2017.

### **Amendments to AR-C section 70**

4. The following represents the amendments to AR-C section 70. New language is shown in boldface italics; deleted language is shown by strikethrough.

## Introduction

### Scope of This Section

**.01** This section applies when an accountant in public practice is engaged to prepare financial statements *or prospective financial information*. (Ref: par. .A1–.A2)

*This section may also be applied, adapted as appropriate in the circumstances, to the preparation of other historical financial information.* (Ref: par. .A3)

This section does not apply when an accountant prepares financial statements *or prospective financial information*

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

~~This section may also be applied, adapted as necessary in the circumstances, to the preparation of other historical or prospective financial information.<sup>†</sup> (Ref: par. .A1)~~

**.02** The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this section) is determined based on services the client requests the accountant to perform and requires the accountant to apply professional judgment. (Ref: par. ~~.A2A4~~)

<sup>†</sup>~~The Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants with respect to compilation engagements on pro forma or prospective financial information.~~

[Paragraphs .03–.09 are unchanged.]

## Requirements

### Agreement on Engagement Terms

**.10** The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should



be documented in an engagement letter or other suitable form of written agreement *between the parties* and should include the following: (Ref: par. ~~.A5A7–.A9A11~~)

- a. The objective of the engagement
  - b. The responsibilities of management set forth in paragraph .25c of section 60
  - c. The agreement of management that each page of the financial statements will include a statement indicating that no assurance is provided on the financial statements or the accountant will be required to issue a disclaimer that makes clear that no assurance is provided on the financial statements (Ref: par. ~~.A11A13~~)
  - d. The responsibilities of the accountant
  - e. The limitations of the engagement to prepare financial statements
  - f. Identification of the applicable financial reporting framework for the preparation of financial statements
  - g. Whether the financial statements are to contain a known departure or departures from the applicable financial reporting framework (including inadequate disclosure) or omit substantially all disclosures required by the applicable financial reporting framework-
- .11** The engagement letter or other suitable form of written agreement should be signed by
- a. the accountant or the accountant’s firm and
  - b. management or those charged with governance, as appropriate: (Ref: par. ~~.A8A10~~)

[Paragraph .12 is unchanged.]

### **Preparing the Financial Statements**

- .13** The accountant should prepare the financial statements using the records, documents, explanations, and other information provided by management.
- .14** The accountant should ensure that a statement is included on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the financial statements. If the accountant is unable to include a statement on each page of the financial statements, the accountant should (Ref: par. ~~.A11A13~~)
- a. issue either a disclaimer that makes clear that no assurance is provided on the financial statements; ~~or~~ (Ref: par. ~~.A12A14~~)
  - b. perform a compilation engagement in accordance with section 80, *Compilation Engagements*; *or*
  - c. *withdraw from the engagement*
- .15** When preparing financial statements in accordance with a special purpose framework, the accountant should include a description of the financial reporting framework on the face of the financial statements or in a note to the financial statements. (Ref: par. ~~.A13A15~~)

- .16** If, during the preparation of financial statements, the accountant assists management with significant judgments regarding amounts or disclosures to be reflected in the financial statements, the accountant should discuss those judgments with management so management understands the significant judgments reflected in financial statements and accepts responsibility for those judgments. (Ref: par. ~~.A14A16~~ and ~~.A18A20~~)
- .17** If the accountant becomes aware that the records, documents, explanations, or other information (including significant judgments) used in the preparation of the financial statement are incomplete, inaccurate, or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information.
- .18** When, after discussions with management, the accountant prepares financial statements that contain a known departure or departures from the applicable financial reporting framework (including inadequate disclosure), the accountant should disclose the material misstatement or misstatements in the financial statements. (Ref: par. ~~.A15A17~~)

### **Preparing Prospective Financial Information**

- .19** *The summary of significant assumptions is essential to the user’s understanding of prospective financial information. Accordingly, the accountant should not prepare prospective financial information that excludes disclosure of the summary of significant assumptions. Also, the accountant should not prepare a financial projection that excludes either (a) an identification of the hypothetical assumptions or (b) a description of the limitations on the usefulness of the presentation.*

[Extant paragraphs .19–.22 are renumbered to .20–.23. Content is unchanged.]

### **Application and Other Explanatory Material**

**Scope of This Section** (Ref: par. .01–.02)

- .A1** *If the accountant is engaged to prepare prospective financial information, references in this section to financial statements are to be taken as a reference to prospective financial information.*
- .A2** *AICPA Guide Prospective Financial Information (the guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, “Preparation Guidelines”; chapter 7, “Reasonably Objective Basis”; chapter 8, “Presentation Guidelines”; and chapter 9, “Illustrative Prospective Financial Statements,” of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information. The guide provides suitable criteria for the preparation and presentation of prospective financial information. The accountant is not prohibited from preparing prospective financial information prepared and presented in accordance with other suitable criteria.*
- ~~.A1A3~~ Other historical or prospective financial information to which this section may be applied includes the following:

- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
- Supplementary information
- Required supplementary information
- Pro forma financial information
- ~~Prospective financial information, including budgets, forecasts, or projections~~

~~A2~~A4 The appendix, “Preparation of Financial Statements Versus Assistance in Preparing Financial Statements,” provides examples of services that the accountant may be engaged to perform and whether this section would apply.

[Extant paragraphs .A3–.A4 are renumbered to .A5–.A6. Content is unchanged.]

### **Agreement on Engagement Terms** (Ref: par. .10–.11)

~~A5~~A7 Both management and the accountant have an interest in documenting the agreed-upon terms of the engagement to prepare financial statements before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or may expect the accountant to protect management against certain risks or to perform certain functions, including those that are management’s responsibility.

~~A6~~A8 When a third party has contracted for an engagement to prepare the entity’s financial statements, agreeing the terms of the engagement with management of the entity is necessary in order to establish that the preconditions for an engagement to prepare financial statements are present.

~~A7~~A9 ~~A contract is another suitable form of written communication.~~ The understanding with management regarding the services to be performed for engagements to prepare financial statements is required by paragraph .10 to be in a documented form, and, accordingly, a ~~verbal~~ **an oral** understanding is insufficient. An engagement letter is the most common, and usually the most convenient, method for documenting the understanding with management regarding the services to be performed for engagements to prepare financial statements.

~~A8~~A10 The roles of management and those charged with governance in agreeing upon the terms of the engagement to prepare financial statements for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity’s structure, the agreement may be with management, those charged with governance, or both. Nonetheless, when the agreement on the terms of engagement is only with those charged with governance in accordance with paragraph .25c of section 60, the accountant is required to obtain management’s agreement that it acknowledges and understands its responsibilities.

~~A9~~A11 An illustrative example of an engagement letter for an engagement to prepare financial statements is presented in the exhibit, “Illustrative Engagement Letter.”

[Extant paragraphs .A10–.A20 are renumbered to .A12–.A22. Content is unchanged.]

## **Amendments to AR-C section 80, *Compilation Engagements* (AICPA, *Professional Standards*)**

### **Introduction**

#### **Scope of This Section**

1. AR-C section 80 applies when an accountant is engaged to perform a compilation engagement.
2. This amendment accomplishes the following:
  - a. Revises paragraph .01 and associated application guidance to expand the subject matter to which the section should be applied to include prospective financial information, pro forma financial information, and other historical financial information
  - b. Clarifies that AICPA Guide *Prospective Financial Information* provides comprehensive guidance regarding prospective financial information including suitable criteria for the preparation and presentation of prospective financial information; and clarifies that the accountant is not prohibited from performing a compilation engagement on prospective financial information prepared and presented in accordance with other suitable criteria
  - c. Revises paragraphs .10 and .A9 to clarify the nature of the engagement letter and to make clear that an oral understanding of the terms of the engagement is insufficient
  - d. Harmonizes guidance with respect to the requirement that the accountant's compilation report include the signature of the accountant or the accountant's firm with that included in AR-C section 90 for an accountant's review report
  - e. Includes requirements when the accountant is issuing a compilation report on prospective financial information
  - f. Revises paragraphs .27–.28 to clarify that the accountant is required to disclose known departures from the applicable financial reporting framework in the accountant's compilation report and that when the accountant becomes aware of a departure from the applicable financial reporting framework that is material to the financial statements and the financial statements are not revised, the accountant is required to consider whether modification of the standard report is adequate to disclose the departure

#### **Effective Date**

3. These amendments are effective upon issuance with the exception of the revisions to paragraphs .01 and .A1 and new paragraphs .24–.25, .A1–.A2, and .A5 which are effective for compilation reports on prospective financial information dated on or after May 1, 2017.

## **Amendments to AR-C section 80**

4. The following represents the amendments to AR-C section 80. New language is shown in boldface italics; deleted language is shown by strikethrough.

### **Introduction**

#### **Scope of This Section**

- .01** This section applies when the accountant is engaged to perform a compilation ~~engagement~~ *of financial statements, prospective financial information, pro forma financial information, or other historical financial information.* (Ref: par. .A1–.A4)

~~This section may also be applied, adapted as necessary in the circumstances, to other historical or prospective financial information.~~<sup>†</sup> (Ref: par. .A1)

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

[Paragraphs .02–.09 are unchanged.]

#### **Agreement on Engagement Terms**

- .10** The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement *between the parties* and should include the following: (Ref: par. ~~.A6A9–.A11A14~~)
- a. The objectives of the engagement
  - b. The responsibilities of management set forth in paragraph .25c of section 60 and paragraph .08 of this section
  - c. The responsibilities of the accountant
  - d. The limitations of the compilation engagement
  - e. Identification of the applicable financial reporting framework for the preparation of the financial statements
  - f. The expected form and content of the accountant’s compilation report and a statement that there may be circumstances in which the report may differ from its expected form and content
- .11** The engagement letter or other suitable form of written agreement should be signed by

- a. the accountant or the accountant's firm and
- b. management or those charged with governance, as appropriate. (Ref: par. ~~A7A10~~)

[Paragraphs .12–.23 are unchanged.]

#### *Reporting on Prospective Financial Information*

***.24 The summary of significant assumptions is essential to the user's understanding of prospective financial information. Accordingly, the accountant should not issue a compilation report on prospective financial information that excludes disclosure of the summary of significant assumptions. Also, the accountant should not issue a compilation report on a financial projection that excludes either (a) an identification of the hypothetical assumptions or (b) a description of the limitations on the usefulness of the presentation.***

***.25 In addition to the reporting elements required by paragraph .17, an accountant's compilation report on prospective financial information should include statements that***

- a. *the forecasted or projected results may not be achieved and*
- b. *the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report.*

[Extant paragraphs .24–.26 are renumbered to .26–.28. Content is unchanged.]

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

***.2729*** When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and the financial statements are not revised, ~~or the departure is not disclosed in the notes to the financial statements,~~ the accountant should ***consider whether modify modification of the compilation standard report is adequate*** to disclose the departure. (Ref: par. ~~A34A36~~)

***.2830*** ***If the accountant concludes that modification of the standard report is adequate, the departure should be disclosed in a separate paragraph of the report.*** The effects of the departure on the financial statements should be disclosed if such effects have been determined by management or are readily known to the accountant as the result of the accountant's procedures.

***.2931*** If the effects of the departure have not been determined by management or are not readily known to the accountant as a result of the accountant's procedures, the accountant is not required to determine the effects of a departure; however, in such circumstances, the accountant should state in the report that such determination has not been made by management.

***.3032*** If the accountant believes that modification of the compilation report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should

withdraw from the engagement and provide no further services with respect to those financial statements. (Ref: par. .A18)

- ~~.31~~33 The accountant should not modify the compilation report to include a statement that the financial statements are not in conformity with the applicable financial reporting framework. (Ref: par. .A33)

[Paragraphs .32–.38 are renumbered to paragraphs .34–.40. Content is unchanged.]

## **Application and Other Explanatory Material**

### **Scope of This Section** (Ref: par. .01)

- .A1 If the accountant is engaged to perform a compilation on prospective financial information or pro forma financial information, references in this section to financial statements are to be taken as a reference to such other financial information.*
- .A2 AICPA Guide Prospective Financial Information (the guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, “Preparation Guidelines”; chapter 7, “Reasonably Objective Basis”; chapter 8, “Presentation Guidelines”; and chapter 9, “Illustrative Prospective Financial Statements,” of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information. The guide provides suitable criteria for the preparation and presentation of prospective financial information. The accountant is not prohibited from performing a compilation on prospective financial information prepared and presented in accordance with other suitable criteria.*
- ~~.A1A3~~ Other historical ~~or prospective~~ financial information that may be the subject of a ~~compilation engagement to which this section applies~~ includes the following:
- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
  - Supplementary information
  - Required supplementary information
  - ~~Pro forma financial information~~
  - ~~Prospective financial information, including budgets, forecasts, or projections~~
- .A4 In addition to the requirements of this section, in a compilation of pro forma financial information, the accountant is also required to adhere to the requirements of section 120, Compilation of Pro Forma Financial Information.*

[Extant paragraphs .A2–.A5 are renumbered to .A5–.A8. Content is unchanged.]

## **Agreement on Engagement Terms (Ref: par. .10–.11 and .38)**

- .A6A9** Both management and the accountant have an interest in documenting the terms of the compilation engagement before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or perform certain functions, including those that are management’s responsibility.
- .A7A10** The roles of management and those charged with governance in agreeing upon the terms of the compilation engagement for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity’s structure, the agreement may be with management, those charged with governance, or both. Nonetheless, when the agreement on the terms of engagement is only with those charged with governance, in accordance with paragraph .25c of section 60, the accountant is required to obtain management’s agreement that it acknowledges and understands its responsibilities.
- .A8A11** When a third party has contracted for a compilation of the entity’s financial statements, agreeing the terms of the compilation with management of the entity is necessary in order to establish that the preconditions for a compilation are present.
- .A9A12** ~~A contract is another suitable form of written communication.~~ The understanding with management regarding the services to be performed for compilation engagements is required by paragraph .10 to be in a documented form, and, accordingly, ~~a verbal~~ ***an oral*** understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for compilation engagements.
- .A10A13** Although the accountant may prepare the financial statements, in whole or in part, the financial statements are representations of management, and the fairness of their presentation in accordance with the applicable financial reporting framework is management’s responsibility.
- .A11A14** Illustrative examples of engagement letters for a compilation engagement are presented in exhibit A, “Illustrative Engagement Letters.”

[Paragraphs .A12–.A18 are renumbered to paragraphs .A15–.A21. The content is unchanged.]

## **The Accountant’s Compilation Report (Ref: par. .17)**

- .A19A22** The accountant’s written report may become unattached from the financial statements. To minimize the possibility that a user of the financial statements may infer an unintended level of reliance on the financial statements, the accountant may request that management include a reference on each page of the financial statements to the accountant’s written report. An example of a reference to the accountant’s written report included on each page of the financial statements is “See Accountant’s Report” or “See Accountant’s Compilation Report.”



~~.A20~~ The signature of the accountant or the accountant's firm may be manual, printed, or digital, as appropriate.

~~.A21~~A23 The city and state where the accountant practices may be indicated on letterhead that contains the issuing office's city and state.

~~.A22~~A24 Illustrative examples of accountant's compilation reports are presented in exhibit B, "Illustrative Examples of the Accountant's Compilation Reports on Financial Statements."

[Paragraphs .A23–.A43 are renumbered to paragraphs .A25–.A45. The content is unchanged.]

## **Amendments to AR-C section 90, *Review of Financial Statements* (AICPA, *Professional Standards*)**

### **Introduction**

#### **Scope of This Section**

1. AR-C section 90 addresses the accountant's responsibilities when engaged to review financial statements.
2. This amendment accomplishes the following:
  - a. Revises paragraph .01 to clarify that AR-C section 90 applies to reviews of all historical financial information, excluding pro forma financial information
  - b. Revises paragraph .05 and adds paragraphs .A10–.A11 to clarify the definition of *supplementary information*
  - c. Revises paragraphs .11 and .A17 to clarify the nature of an engagement letter and to make clear that an oral understanding of the terms of the engagement is insufficient
  - d. Revises paragraph .12 to use language consistent with that used in corresponding paragraphs in AR-C section 70 and AR-C section 80
  - e. Revises paragraph .39g to make consistent with the requirement for an accountant's or an accounting firm's signature on a compilation report
  - f. Revises paragraphs .80–.82 and .A128–.A131 with respect to the accountant's reporting responsibilities when supplementary information accompanies reviewed financial statements and the accountant's review report thereon

#### **Effective Date**

3. These amendments are effective upon issuance.

## Amendments to AR-C section 90

4. The following represents the amendments to AR-C section 90. New language is shown in boldface italics; deleted language is shown by strikethrough.

### Introduction

#### Scope and Applicability of This Section

- .01** This section *applies when the accountant is engaged to perform a* ~~addresses the accountant's responsibilities when engaged to review~~ *of* financial statements. This section ~~may also applied, as necessary in the circumstances, to engagements~~ *when the accountant is engaged* to review other historical financial information, *excluding pro forma financial information. Reviews of pro forma financial information are to be performed in accordance with Statements on Standards for Attestation Engagements.* (Ref: par. .A1–~~.A2A3~~)
- .02** This section does not apply when the accountant is engaged to review interim financial information when
- a. the entity's latest annual financial statements have been audited by the accountant or a predecessor;
  - b. the accountant either
    - i. has been engaged to audit the entity's current year financial statements or
    - ii. audited the entity's latest annual financial statements and, in situations in which it is expected that the current year financial statements will be audited, the engagement of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review; and
  - c. the entity prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the annual financial statements.
- AU-C section 930, *Interim Financial Information* (AICPA, *Professional Standards*), provides guidance for review engagements when the conditions in *a–c* are met.

### Definitions

- .05** For purposes of Statements on *Standards for Accounting and Review Services Standards* (SSARs), the following terms have the meanings attributed as follows:

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

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

preparation and fair presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

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

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

**Emphasis-of-matter paragraph.** A paragraph included in the accountant’s review report that is required by SSARs, or is included at the accountant’s discretion, and that refers to a matter appropriately presented or disclosed in the financial statements that, in the accountant’s professional judgment, is of such importance that it is fundamental to the users’ understanding of the financial statements.

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

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

- a. review processes;
- b. SSARs and applicable legal and regulatory requirements;
- c. the business environment in which the entity operates; and
- d. review and financial reporting issues relevant to the entity’s industry.

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

**Financial statements.** A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term *financial statements* ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework but can also refer to a single financial statement.

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

**Generally accepted accounting principles (GAAP).** References to GAAP in SSARs means generally accepted accounting principles promulgated by bodies designated by

the Council of the AICPA pursuant to the “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001) and the “Accounting Principles Rule” (AICPA, *Professional Standards*, ET sec. 1.320.001), of the AICPA Code of Professional Conduct.

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

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

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

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

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

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

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

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

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

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

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

- a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.
- c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission). (Ref: par. ~~A9A10~~)
- d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.
- e. **Other-basis.** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

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

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

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

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

**Supplementary information.** Information presented outside the basic financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. *Such information may be presented in a document containing the reviewed financial statements or separate from the reviewed financial statements.* (Ref: par. A11–A12)

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

**Updated report.** A report issued by a continuing accountant that takes into consideration information that the accountant becomes aware of during the accountant's current

engagement and that re-expresses the accountant's previous conclusions or, depending on the circumstances, expresses different conclusions on the financial statements of a prior period reviewed by the accountant as of the date of the accountant's current report.

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

[Paragraphs .06–.10 are unchanged.]

### **Agreement on Engagement Terms**

- .11** The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement *between the parties* and should include the following: (Ref: par. ~~.A14A17–.A19A22~~)
- a. The objectives of the engagement
  - b. The responsibilities of management set forth in paragraph .25c of section 60 and paragraph .09 of this section
  - c. The responsibilities of the accountant
  - d. The limitations of a review engagement
  - e. Identification of the applicable financial reporting framework for the preparation of the financial statements
  - f. The expected form and content of the accountant's review report and a statement that there may be circumstances in which the report may differ from its expected form and content
- .12** The engagement letter or other suitable form of written ~~communication~~ *agreement* should be signed by
- a. the accountant or the accountant's firm and
  - b. management or those charged with governance, as appropriate. (Ref: par. ~~.A15A18~~)

[Paragraphs .13–.37 are unchanged.]

### **Reporting on the Financial Statements**

- .38** The accountant's review report should be in writing. (Ref: par. ~~.A62A65–.A64A67~~)

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

- .39** The written review report should include (Ref: par. ~~.A77A80~~)
- a. a title that includes the word *independent* to clearly indicate that it is the report of an independent accountant. (Ref: par. ~~.A65A68~~)
  - b. an addressee, as appropriate for the circumstances of the engagement. (Ref: par. ~~.A66A69~~)

- c. an introductory paragraph that (Ref: par. ~~.A67A70–.A69A72~~)
  - i. identifies the entity whose financial statements have been reviewed,
  - ii. states that the financial statements identified in the report were reviewed,
  - iii. identifies the financial statements,
  - iv. specifies the date or period covered by each financial statement,
  - v. includes a statement that a review includes primarily applying analytical procedures to management’s (owner’s) financial data and making inquiries of company management (owners), and
  - vi. includes a statement that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole, and that, accordingly, the accountant does not express such an opinion.
- d. a section with the heading “Management’s Responsibility for the Financial Statements” that includes an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework. (Ref: par. ~~.A70A73~~)
- e. a section with the heading “Accountant’s Responsibility” that includes the following statements:
  - i. The accountant’s responsibility is to conduct the review engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA. The accountant’s review report should also explain that those standards require that the accountant perform the procedures to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework. (Ref: par. ~~.A71A74–.A73A76~~)
  - ii. The accountant believes that the review evidence the accountant has obtained is sufficient and appropriate to provide a basis for the accountant’s conclusion.
- f. a concluding section with an appropriate heading that includes a statement about whether the accountant is aware of any material modifications that should be made to the accompanying financial statements for them to be in accordance with the applicable financial reporting framework and that identifies the country of origin of those accounting principles, if applicable. (Ref: par. ~~.A46A49~~)
- g. the ~~manual or printed~~ signature of the **accountant or the** accountant’s firm
- h. the city and state where the accountant practices (Ref: par. ~~.A74A77~~)
- i. the date of the review report, which should be dated no earlier than the date on which the accountant completed procedures sufficient to obtain limited assurance as a basis

for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework, including evidence that

- i. all the statements that the financial statements comprise, including the related notes, have been prepared and
- ii. management has asserted that they have taken responsibility for those financial statements (Ref: par. ~~.A75A78–.A76A79~~)

[Paragraphs .40–.79 are unchanged.]

**Supplementary Information That Accompanies Reviewed Financial Statements and the Accountant’s Review Report Thereon**

**.80** When supplementary information accompanies reviewed financial statements and the accountant’s review report thereon, the accountant should clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information in either (Ref: par. ~~.A128~~)

- a. an other-matter paragraph in the accountant’s review report on the financial statements or
- b. a separate report on the supplementary information

**.81** When the accountant has *subjected* ~~reviewed both the financial statements and the supplementary information~~ *to the review procedures applied in the accountant’s review of the basic financial statements*, the other-matter paragraph in the accountant’s review report on the financial statements or the separate report on the supplementary information should state that (Ref: par. ~~.A129A131~~ and ~~.A131A133~~)

- a. the *supplementary* information is presented for purposes of additional analysis and is not a required part of the *basic* financial statements;
- b. the *supplementary* information is the ~~representation~~ *responsibility* of management *and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements*;
- c. the ~~accountant~~ *supplementary information* has ~~reviewed the information~~ *been subjected to the review procedures applied in the accountant’s review of the basic financial statements*; and, ~~based on the accountant’s review,~~ whether the accountant is aware of any material modifications that should be made to the *supplementary* information ~~in order for it to be in accordance with the applicable financial reporting framework~~; and
- d. the accountant has not audited the *supplementary* information and, ~~accordingly,~~ does not express an opinion on such information.

**.82** When the accountant has ~~reviewed the financial statements but not~~ *subjected* the supplementary information *to the review procedures applied in the accountant’s review of the basic financial statements*, the other-matter paragraph in the accountant’s review report on the financial statements or the separate report on the supplementary information should state that (Ref: par. ~~.A130A132–.A131A133~~)



- a. the *supplementary* information is presented for purposes of additional analysis and is not a required part of the *basic* financial statements;
- b. the *supplementary* information is the ~~representation~~ *responsibility* of management; and
- c. the accountant has not audited or reviewed the *supplementary* information and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on such information.

### Required Supplementary Information

**.83** Concerning the requirement in paragraph .80, with respect to required supplementary information, the accountant should include an other-matter paragraph in the accountant's review report on the financial statements. The ~~other-matter paragraph~~ *other-matter paragraph* should include language to explain the following circumstances, as applicable: (Ref: par. ~~.A132A133~~)

- a. The required supplementary information is included, and the accountant performed a compilation engagement on the required supplementary information.
- b. The required supplementary information is included, and the accountant reviewed the required supplementary information.
- c. The required supplementary information is included, and the accountant did not perform a compilation, review, or audit on the required supplementary information.
- d. The required supplementary information is omitted.
- e. Some required supplementary information is missing, and some is presented in accordance with the prescribed guidelines (Ref: par. ~~.A133A134~~)
- f. The accountant has identified departures from the prescribed guidelines.
- g. The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

**.84** If the entity has presented all or some of the required supplementary information and the accountant did not perform a compilation or review on the required supplementary information, the other-matter paragraph referred to in paragraph .80 should include the following elements: (Ref: par. ~~.A134A135~~)

- a. A statement that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that the [*identify the required supplementary information*] be presented to supplement the basic financial statements
- b. A statement that such information, although not a part of the basic financial statements, is required by [*identify designated accounting standards-setter*], who considers it to be an essential part of financial reporting for placing the

basic financial statements in an appropriate operational, economic, or historical context

- c. A statement that the accountant did not perform a compilation, review, or audit on the required supplementary information and, accordingly, does not express an opinion or provide any assurance on the information
- d. If some of the required supplementary information is omitted
  - i. a statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements
  - ii. a statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
- e. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]
- f. If the accountant has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that the accountant has doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [*identify designated accounting standards-setter*]

**.85** If all the required supplementary information is omitted, the other-matter paragraph should include the following elements:

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

[Paragraphs .86–.92 are unchanged.]

## **Application and Other Explanatory Material**

### **Scope and Applicability of This Section (Ref: par. .01)**

**.A1** *If the accountant is engaged to perform a review of historical financial information other than financial statements, references in this section to financial statements are to be taken as a reference to such other historical financial information.*

**.A1A2** Examples of other historical financial information that an accountant may be engaged to review include, but are not limited to, the following:

- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
- Supplementary information
- Required supplementary information
- Financial information contained in a tax return

**.A2A3** The accountant may review a single financial statement, such as a balance sheet, and not other related financial statements, such as the statements of income, retained earnings, and cash flows, if the scope of the accountant's inquiry and analytical procedures have not been restricted.

[Paragraphs .A3–.A8 are renumbered to .A4–.A9. The content is unchanged.]

#### **Definitions** (Ref: par. .05)

**.A9A10** Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on GAAP but does not comply with all of the requirements of GAAP. Such frameworks are regulatory-bases of accounting, as defined in paragraph .05. In some circumstances, however, the cash- or tax-basis of accounting may be permitted by a regulator. For purposes of this section, the cash- and tax-bases of accounting are not regulatory bases of accounting.

**.A11** *Supplementary information includes additional details or explanations of items in or related to the basic financial statements, consolidating information, historical summaries of items extracted from the basic financial statements, statistical data, and other material, some of which may be from sources outside the accounting system or outside the entity.*

**.A12** *Supplementary information may be prepared in accordance with an applicable financial reporting framework, by regulatory or contractual requirements, in accordance with management's criteria, or in accordance with other requirements.*

[Extant paragraphs .A10–.A13 are renumbered to paragraphs .A13–.A16. Content is unchanged.]

#### **Agreement on Engagement Terms** (Ref: par. .11–.12 and .92)

**.A14A17** Both management and the accountant have an interest in documenting the agreed-upon terms of the review engagement before the commencement of the review engagement to help avoid misunderstandings with respect to the review engagement. For example, it

reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or perform certain functions, including those that are management's responsibility.

- ~~.A15~~A18 The roles of management and those charged with governance in agreeing upon the terms of the review engagement for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity's structure, the agreement may be with management, those charged with governance, or both. When the agreement on the terms of engagement is only with those charged with governance, nonetheless, in accordance with paragraph .25c of section 60, the accountant is required to obtain management's agreement that it acknowledges and understands its responsibilities.
- ~~.A16~~A19 When a third party has contracted for a review of the entity's financial statements, agreeing the terms of the review with management of the entity is necessary in order to establish that the preconditions for a review are present.
- ~~.A17~~A20 ~~A contract is another suitable form of written communication.~~ The understanding with management regarding the services to be performed for review engagements is required by paragraph .11 to be in a documented form, and, accordingly, ~~a verbal~~***an oral*** understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for review engagements.
- ~~.A18~~A21 Although the accountant may prepare the financial statements, in whole or in part, the financial statements are representations of management, and the fairness of their presentation in accordance with the applicable financial reporting framework is management's responsibility.
- ~~.A19~~A22 Illustrations of engagement letters for a review of financial statements are presented in exhibit A, "Illustrative Engagement Letters."

[Extant paragraphs .A20–.A127 are renumbered to paragraphs .A23–.A130. The content is unchanged.]

**Supplementary Information That Accompanies Reviewed Financial Statements and the Accountant's Review Report Thereon** (Ref: par. .80–.82)

- ~~.A128~~ Although not required to perform a compilation or review on supplementary information, nothing precludes the accountant from performing a compilation or review on such information if engaged to do so.
- ~~.A129~~A131 The following is an example of how an accountant may word an other-matter paragraph addressing supplementary information when ~~the accountant has reviewed both the financial statements and the~~ supplementary information ***has been subjected to the review procedures applied in the accountant's review of the basic financial statements:***

***Other Matter***

The ***accompanying*** [*identify the supplementary information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. ~~The~~

*Such* information is the ~~representation-responsibility~~ of management *and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.* ~~I (We) have reviewed the~~ *The supplementary information has been subjected to the review procedures applied in my (our) review of the basic financial statements.* ~~and, based on my (our) review, I am (We are) not aware of any material modifications that should be made to the supplementary information. in order for it to be in accordance with [the applicable financial reporting framework].~~ ~~I (We) have not audited the supplementary information and, accordingly, do not express an opinion on such information.~~

~~A130~~A132 The following is an example of how an accountant may word an other-matter paragraph addressing supplementary information when ~~the accountant has reviewed the financial statements but has not reviewed the~~ supplementary information *has not been subjected to the review procedures applied in the review of the basic financial statements:*

*Other Matter*

The *accompanying* [*identify the supplementary information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. ~~The~~ *Such* information is the ~~representation-responsibility~~ of management. I (We) have not audited or reviewed such information and, ~~accordingly,~~ I (we) do not express an opinion, a conclusion, nor provide any assurance on it.

~~A131~~A133 Supplementary information ~~on which the accountant has performed a compilation or review~~ may become unattached from the accountant's review report. To minimize the possibility that a user of the *supplementary* information may infer, through the accountant's association with ~~the~~ *such* information, an unintended level of reliance on ~~the information-it~~, the accountant may consider including a reference to the accountant's review report on each page of the *supplementary* information. An example of a reference to the accountant's review report included on each page of the supplementary information is "See independent accountant's review report."

[Extant paragraphs A132-.A142 are renumbered to paragraphs .A134-.A144. The content is unchanged.]

## Conforming Amendments to AR-C section 70, *Preparation of Financial Statements*

### Application and Other Explanatory Material

#### Preparing the Financial Statements (Ref: par. .10, .14–.16, and .18)

**.A14** An example of a disclaimer that the accountant may issue is as follows:

The accompanying financial statements of XYZ Company as of and for the year ended December 31, 20XX, were not subjected to an audit, review, or compilation engagement by me (us) and, ~~accordingly,~~ I (we) do not express an opinion, a conclusion, nor provide any assurance on them.

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

[*Accountant's city and state*]

[*Date*]

## Conforming Amendments to AR-C section 80, *Compilation Engagements*

### Definitions

**.05** For purposes of Statements on *Standards for Accounting and Review Standards Services* (SSARs), the following terms have the meanings attributed as follows:

**Supplementary information.** Information presented outside the basic financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. *Such information may be presented in a document containing the financial statements subjected to the compilation engagement or separate from the financial statements subjected to the compilation engagement.* (Ref: par. .A6–.A7).

### The Accountant's Compilation Report

**.17** The accountant's compilation report should be in writing and (Ref: par. ~~.A22A24~~ and ~~.A24A26~~)

- a. include a statement that management (owners) is (are) responsible for the financial statements.
- b. identify the financial statements that have been subjected to the compilation engagement.
- c. identify the entity whose financial statements have been subjected to the compilation engagement.

- d. specify the date or period covered by the financial statements.
- e. include a statement that the accountant performed the compilation engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA.
- f. include a statement that the accountant did not audit or review the financial statements nor was the accountant required to perform any procedures to verify the accuracy or completeness of the information provided by management and, ~~accordingly,~~ does not express an opinion, a conclusion, nor provide any assurance on the financial statements.
- g. include the signature of the accountant or the accountant's firm.
- h. include the city and state where the accountant practices. (Ref: par. ~~A23A25~~)
- i. include the date of the report, which should be the date that the accountant has completed the procedures required by this section.

### **Supplementary Information That Accompanies Financial Statements and the Accountant's Compilation Report Thereon**

- .34 When supplementary information accompanies financial statements and the accountant's compilation report thereon, the accountant should clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information in either (Ref: par. ~~A35~~)
  - a. a separate paragraph in the accountant's compilation report on the financial statements or
  - b. a separate report on the supplementary information.
- .35 When the accountant has performed a compilation engagement with respect to both the financial statements and the supplementary information, the accountant should include ~~an other matter~~ **a separate paragraph** in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. ~~A38A39~~ and ~~A40A41~~)
  - a. the **supplementary** information is presented for purposes of additional analysis and is not a required part of the basic financial statements;
  - b. the **supplementary** information is the ~~representation~~ **responsibility** of management; ~~and~~
  - c. the **supplementary** information was subject to the compilation engagement; ~~however;~~ ~~and~~;
  - d. **the** accountant has not audited or reviewed the **supplementary** information and, ~~accordingly,~~ does not express an opinion, a conclusion, nor provide any assurance on such information.

- .36** When the accountant has performed a compilation engagement with respect to the financial statements but the supplementary information was not subject to the compilation engagement, the accountant should include a separate paragraph in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. ~~A39A40~~–~~A40A41~~)
- a. the *supplementary* information is presented for purposes of additional analysis and is not a required part of the basic financial statements;
  - b. the *supplementary* information is the ~~representation~~–*responsibility* of management; and
  - c. the *supplementary* information was not subject to the compilation engagement and, ~~accordingly~~, the accountant does not express an opinion, a conclusion, nor provide any assurance on such information.

### **Required Supplementary Information**

- .38** If the entity has presented all or some of the required supplementary information and the accountant did not perform a compilation engagement on the required supplementary information, the other-matter paragraph in the accountant's compilation report referred to in paragraph .34 should include the following elements: (Ref: par. ~~A43A44~~)
- a. A statement that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] requires that the [*identify the required supplementary information*] be presented to supplement the basic financial statements
  - b. A statement that such information, although not a part of the basic financial statements, is required by [*identify designated accounting standards-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
  - c. A statement that the accountant did not perform a compilation, review, or audit on the required supplementary information and, ~~accordingly~~, does not express an opinion, a conclusion, nor provide any assurance on the information
  - d. If some of the required supplementary information is omitted:
    - i. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements
    - ii. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards- setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context



- e. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]
- f. If the accountant has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that the accountant has doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [*identify designated accounting standards-setter*]

## Application and Other Explanatory Material

### Definitions (Ref: par. .05)

- .A6 *Supplementary information includes additional details or explanations of items in or related to the basic financial statements, consolidating information, historical summaries of items extracted from the basic financial statements, statistical data, and other material, some of which may be from sources outside the accounting system or outside the entity.*
- .A7 *Supplementary information may be prepared in accordance with an applicable financial reporting framework, by regulatory or contractual requirements, in accordance with management's criteria, or in accordance with other requirements.*

### Supplementary Information That Accompanies Financial Statements and the Accountant's Compilation Report Thereon (Ref: par. .34–.36)

~~A37~~ Although not required to perform a compilation engagement on supplementary information that accompanies financial statements and the accountant's compilation report thereon, nothing precludes the accountant from performing a compilation engagement on such information if engaged to do so.

~~A38~~A37 The following is an example of how an accountant may word a separate paragraph in the accountant's compilation report addressing supplementary information when the accountant has performed a compilation engagement on both the financial statements and the supplementary information:

#### ***Other Matter***

The *accompanying* [*identify the supplementary information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. ~~This~~**Such** information is the ~~representation~~**responsibility** of management. The **supplementary** information was subject to our compilation engagement. ~~however,~~ I (~~we~~) have not audited or reviewed the **supplementary** information and, ~~accordingly,~~ do not express an opinion, a conclusion, nor provide any assurance on such information.

~~A39~~A38 The following is an example of how an accountant may word a separate paragraph in the accountant's compilation report addressing supplementary information when the accountant has performed a compilation engagement on the financial statements but has not performed a compilation on the supplementary information:

The *accompanying* [*identify the supplementary information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. ~~This—~~*Such* information is the ~~representation—~~*responsibility* of management. The *supplementary* information was not subject to our compilation engagement. I (We) do not express an opinion, a conclusion, nor provide any assurance on such information.

~~A40~~A39 Supplementary information may become unattached from the accountant's compilation report. To minimize the possibility that a user of the *supplementary* information may infer, through the accountant's association with ~~the—such~~ information, an unintended level of reliance on ~~the information—~~*it*, the accountant may request that management include a reference to the accountant's compilation report on each page of the *supplementary* information. An example of a reference to the accountant's compilation report included on each page of the supplementary information is "See Accountant's Report" or "See Accountant's Compilation Report."