AR Section 100

Compilation and Review of Financial Statements

Issue date, unless otherwise indicated: December, 1978

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

a. Compilation of financial statements.1 If the accountant performs a compilation, a communication to management is required. The type of communication depends on the following.

1. If the accountant is engaged to report on compiled financial statements or submits financial statements to a client that are or reasonably might be expected to be used by a third party, see paragraphs .11 through .19 for reporting requirements.

2. If the accountant submits financial statements to a client that are not reasonably expected to be used by a third party, see paragraphs .20 through .23 for required communications to management.

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

In each of the above circumstances, the performance requirements in paragraphs .05 and .07 through .10 apply.

b. Review of financial statements.2 If the accountant performs a review, see paragraphs .05 and .24 through .39 for performance and reporting requirements.

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1 This section has been revised to reflect the amendments and conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services No. 8, effective for financial statements submitted after December 31, 2000. The amendments provide communication and performance requirements for unaudited financial statements submitted to a client that are not expected to be used by a third party. Specifically, the amendments are to the replacement of paragraphs .01 through .22 with new paragraphs .01 through .23 (subsequent paragraphs and footnotes have been renumbered accordingly), the addition of a new Appendix A [paragraph .57] and D [paragraph .60], and the deletion of former Appendix E [paragraph .63]. In addition, conforming changes to terminology and cross references have been made throughout this section.

2 See Appendix A [paragraph .57], "Compilation of Financial Statements," for a flowchart describing the requirements of Statements on Standards for Accounting and Review Services (SSARSs) for a compilation engagement.

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Statements on Standards for Accounting and Review Services

.02 If the accountant performs more than one service (for example, a compilation and an audit), the accountant should issue the report that is appropriate for the highest level of service rendered.¹

.03 An accountant should not consent to the use of his or her name in a document or written communication containing unaudited financial statements of a nonpublic entity unless (a) the accountant has compiled or reviewed the financial statements in compliance with the provisions of this Statement or (b) the financial statements are accompanied by an indication that the accountant has not compiled or reviewed the financial statements and that the accountant assumes no responsibility for them. For example, the indication may be worded as follows:

The accompanying balance sheet of X Company as of December 31, 20X1, the related statements of income, and cash flows for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

If an accountant becomes aware that his or her name has been used improperly in any client-prepared document containing unaudited financial statements, the accountant should advise the client that the use of his or her name is inappropriate and should consider what other actions might be appropriate, including consultation with his or her attorney. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

Definitions

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

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

Third party. All parties except for members of management who are knowledgeable about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements.³

Nonpublic entity. Any entity other than (a) one whose securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally; (b) one that makes a filing with a regulatory agency in preparation for the sale of any class of its securities in a public market; or (c) a subsidiary, corporate joint venture, or other entity controlled by an entity covered by (a) or (b). (See SSARS No. 2, Reporting on Comparative Financial Statements [section 201]).

Financial statement. A presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with generally accepted accounting principles.

³ SSARS No. 3, Compilation Reports on Financial Statements Included in Certain Prescribed Forms [section 301], permits an accountant who has reviewed the financial statements of a nonpublic entity to issue a compilation report on financial statements for the same period that are included in a prescribed form that calls for departure from generally accepted accounting principles (GAAP). The accountant may wish to specify those members of management. See Appendix F [paragraph .62], "Compilation of Financial Statements Not Intended for Third-Party Use—Illustrative Engagement Letter." [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

Compilation and Review of Financial Statements

(GAAP, or a comprehensive basis of accounting other than GAAP. Financial forecasts, projections and similar presentations,¹ and financial presentations included in tax returns are not financial statements for purposes of this Statement. The following financial presentations are examples of financial statements:⁴

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

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

Compilation of financial statements. Presenting in the form of financial statements information that is the representation of management (owners) without undertaking to express any assurance on the statements. (The accountant might consider it necessary to perform other accounting services to compile the financial statements. See paragraph .08.)

¹ The definition of GAAP and the hierarchy of established accounting principles presented in SAS No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles (AU section 411), is also applicable to compilations and reviews of financial statements performed under SSARSs. (Title of AU section 411 revised, October 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 95.)

⁴ The term comprehensive basis of accounting other than generally accepted accounting principles is defined in SAS No. 62, Special Reports, paragraph .04 [AU section 623.04]. Hereafter, reference to GAAP in this statement includes, where applicable, another comprehensive basis of accounting (OCBOA). SAS No. 62, paragraphs 9 and 10 [AU section 623.09 and .10], provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with OCBOA. Statement on Standards for Attestation Engagements No. 10, chapter 3, Financial Forecasts and Projections [AT section 301], as well as the AICPA Guide for Prospective Financial Information, provide guidance on preparing and reporting on financial forecasts, projections, and similar presentations. [Footnote revised, January 2001, to reflect conforming changes necessary due to the issuance of Statement on Standards for Attestation Engagements No. 10.]

⁵ SAS No. 62, paragraph .07 [AU section 623.07], provides guidance with respect to suitable titles for financial statements that are prepared in conformity with OCBOA other than GAAP.

⁶ Statement on Standards for Attestation Engagements No. 10, paragraph .06, provides guidance for financial statements that are intended to be comprehensive statements that are intended to be comprehensive statements that omit substantially all the disclosures required by GAAP or OCBOA.
Compilation and Review of Financial Statements

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

Compilation Performance Requirements

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

.08 To compile financial statements, the accountant should possess a general understanding of the nature of the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements. The accountant ordinarily obtains knowledge of these matters through experience with the entity or inquiry of the entity's personnel. On the basis of that understanding, the accountant should consider whether it will be necessary to perform other accounting services, such as assist in adjusting the books of account or consult on accounting matters, when he or she compiles financial statements.

.09 The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity. However, the accountant may have made inquiries or performed other procedures. The results of such inquiries or procedures, knowledge gained from prior engagements, or the financial statements on their face may cause the accountant to become aware that information supplied by the entity is incorrect, incomplete, or otherwise unsatisfactory. In such circumstances, the accountant should obtain additional or revised information. If the entity refuses to provide additional or revised information, the accountant should withdraw from the engagement. (However, see paragraphs .16 through .18 for guidance when management elects to omit substantially all the disclosures required by GAAP and see paragraphs .41 through .43 for the accountant's reporting responsibilities when he or she is aware of other departures from GAAP.) [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

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

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10 When a fraud or illegal act involves senior management, the accountant should report the matter to an individual or group at a higher level within the entity, such as the manager (owner) or the board of directors.

11 For purposes of this Statement, the term industry includes governmental and not-for-profit activities.
Reporting on the Financial Statements

11 When the accountant is engaged to report on compiled financial statements or submits financial statements that are reasonably expected to be used by a third party, the financial statements should be accompanied by a report. The basic elements of the report are as follows:

a. A statement that a compilation has been performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants

b. A statement that a compilation is limited to presenting in the form of financial statements information that is the representation of management (owners)

c. A statement that the financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them

d. A signature of the accounting firm or the accountant as appropriate (For example, the signature could be manual, stamped, electronic, or typed.)

e. The date of the compilation report (The date of completion of the compilation should be used as the date of the accountant’s report.)

Any other procedures that the accountant might have performed before or during the compilation engagement should not be described in the report. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

12 Each page of the financial statements compiled by the accountant should include a reference, such as “See Accountant’s Compilation Report.”

13 The following form of standard report is appropriate for a compilation:

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

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

14 APB Opinion No. 22, “Separate Statement—1967,” requires the disclosure of a change in capital. This can be accomplished by the preparation of a separate statement in the notes to the financial statements, or as part of another basic statement. If the accountant does not include a statement of retained earnings as a separate statement, reference in the compilation report is not needed. [Footnote added, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

15 An accountant may be asked to issue a compilation report on one financial statement, such as a balance sheet, and not on other related financial statements, such as the statements of income, retained earnings, and cash flows. This Statement does not preclude the accountant from doing so. Also, an accountant may be asked to compile financial statements included in a prescribed form that calls for departure from GAAP. SSARS No. 3, Compilation Reports on Financial Statements Included in Certain Prescribed Forms (Section 300), provides additional guidance, including an alternative form of standard report, applicable to such compilation engagements.

Reporting on Financial Statements That Omit Substantially All Disclosures

16 An entity may request an accountant to compile financial statements that omit substantially all the disclosures required by GAAP, including disclosures that might appear in the body of the financial statements. As previously noted, reference to GAAP in this Statement includes, where applicable, OCBOA. The accountant may compile such financial statements provided the omission of substantially all disclosures is clearly indicated in the report and is not, to his or her knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.

When the entity wishes to include disclosures about only a few matters in the form of notes to such financial statements, such disclosures should be labeled “Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included.”

17 Notwithstanding the above, if financial statements compiled in conformity with a comprehensive basis of accounting other than GAAP do not include disclosure of the basis of accounting used, the basis should be disclosed in the accountant’s report.

18 When financial statements that the accountant has compiled omit substantially all disclosures, the following form of standard report is appropriate.

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

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

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

Reporting When the Accountant Is Not Independent

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

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

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

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

• Issue a compilation report in accordance with the reporting requirements discussed in paragraphs .11 through .19.
• Document an understanding with the entity through the use of an engagement letter, preferably signed by management, regarding the services to be performed and the limitations on the use of those financial statements. (Appendix D [paragraph .60] contains “Compilation of Financial Statements Not Intended for Third-Party Use—Illustrative Engagement Letter.”)

21 The documentation of the understanding should include the following descriptions or statements:

• The nature and limitations of the services to be performed.
• A compilation is limited to presenting in the form of financial statements information that is the representation of management.
• The financial statements will not be audited or reviewed.
• No opinion or any other form of assurance on the financial statements will be provided.
• Management has knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements.
• Acknowledgment of management’s representation and agreement that the financial statements are not to be used by third parties.
• The engagement cannot be relied upon to disclose errors, fraud, or illegal acts.

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

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

Such an understanding reduces the risk that the accountant or the client may misinterpret the needs or expectations of the other party. If the accountant believes an understanding with the client has not been established, he or she should decline to accept or perform the engagement.

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

23 If the accountant becomes aware that the financial statements have been distributed to third parties, the accountant should discuss the situation with the client and request that the client have the statements returned. If the client does not comply with this request within a reasonable period of time, the accountant should notify the third parties that the financial statements are not intended for third-party use, preferably in consultation with his or her attorney.

Review of Financial Statements

24 Paragraphs .25 through .40 provide additional guidance applicable to a review of financial statements. [As amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

25 The accountant should possess a level of knowledge of the accounting principles and practices of the industry in which the entity operates and an understanding of the entity’s business that will provide him, through the performance of inquiry and analytical procedures, with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles. (As previously noted, reference to generally accepted accounting principles in this statement includes, where applicable, another comprehensive basis of accounting.)

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

16 In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA Code of Professional Conduct. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

17 For purposes of this statement, the term business includes not-for-profit entities. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]
The accountant's understanding of the entity's business should include a general understanding of the entity's organization, its operating characteristics, and the nature of its assets, liabilities, revenues, and expenses. This would ordinarily involve a general knowledge of the entity's production, distribution, and compensation methods, types of products and services, operating locations, and material transactions with related parties. An accountant's understanding of an entity's business is ordinarily obtained through experience with the entity or its industry and inquiry of the entity's personnel.

The accountant's inquiry and analytical procedures should ordinarily consist of the following:

a. Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them (see Appendix B [paragraph .56]).

b. Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements (see Appendix B [paragraph .56]).

c. Analytical procedures designed to identify relationships and individual items that appear to be unusual. For the purposes of this statement, analytical procedures consist of (1) comparison of the financial statements with statements for comparable prior periods, (2) comparison of the financial statements with anticipated results, if available (for example, budgets and forecasts), and (3) study of the relationships of the elements of the financial statements that would be expected to conform to a predictable pattern based on the entity's experience. In applying these procedures, the accountant should consider the types of matters that required accounting adjustments in preceding periods. Examples of relationships of elements in financial statements that would be expected to conform to predictable patterns may be the relationships between changes in sales and changes in accounts receivable and expense accounts that ordinarily fluctuate with sales, and between changes in property, plant, and equipment and changes in depreciation expense and other accounts that may be affected, such as maintenance and repairs.

d. Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements.

e. Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles.

f. Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees.

The financial statements of the reporting entity ordinarily include an accounting for all significant components, such as unconsolidated subsidiaries and investees. If other accountants are engaged to audit or review the financial statements of such components, the accountant will require reports from other accountants as a basis, in part, for his report on his review of the financial statements of the reporting entity. The accountant may decide to make reference to the work of other accountants in his review report on the financial statements. If such reference is made, the report should indicate the magnitude of the portion of the financial statements audited or reviewed by the other accountants. [Footnote numbered and amended, effective for review reports dated January 1, 2003, or after, by Statement on Standards for Accounting and Review Services No. 9.]
Statements on Standards for Accounting and Review Services

.31 Knowledge acquired in the performance of audits of the entity's financial statements, compilation of the financial statements, or other accounting services may result in modification of the review procedures described in paragraph .28. However, such modification would not reduce the degree of responsibility the accountant assumes with respect to the financial statements he has reviewed. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

.32 A review does not contemplate obtaining an understanding of internal control or assessing control risk, tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit. Thus, a review does not provide assurance that the accountant will become aware of all significant matters that would be disclosed in an audit. However, if the accountant becomes aware that information coming to his attention is incorrect, incomplete, or otherwise unsatisfactory, he should perform the additional procedures he deems necessary to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles. [See paragraph .38 for guidance when an accountant is unable to complete a review and paragraphs .41 through .43 for the accountant's responsibilities when he is aware of departures from generally accepted accounting principles.][Paragraph renumbered and amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

.33 Although it is not possible to specify the form or content of the working papers that an accountant should prepare in connection with a review of financial statements because of the different circumstances of individual engagements, the accountant's working papers should describe:

a. The matters covered in the accountant's inquiry and analytical procedures.

b. Unusual matters that the accountant considered during the performance of the review, including their disposition.

[Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

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.37 The following form of standard report is appropriate for a review. [Paragraph renumbered and amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9, November 2002.]

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

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

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

[Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

.38 When an accountant is unable to perform the inquiry and analytical procedures he or she considers necessary to achieve the limited assurance contemplated by a review, or the client does not provide the accountant with a...
representation letter, the review will be incomplete. A review that is incomplete is not an adequate basis for issuing a review report. In such a situation, the accountant should consider the matters discussed in paragraphs .46 through .51 in deciding whether it is appropriate to issue a compilation report on the financial statements. [Paragraph renumbered and amended, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]

.39 An accountant may be asked to issue a review report on one financial statement, such as a balance sheet, and not on other related financial statements, such as the statements of income, retained earnings, and cash flows. He may do so if the scope of his inquiry and analytical procedures has not been restricted. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

.40 An accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he is not independent. If the accountant is not independent, he may issue a compilation report provided he complies with the compilation standards. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

**Departures From Generally Accepted Accounting Principles**

.41 An accountant who is engaged to compile or review financial statements may become aware of a departure from generally accepted accounting principles (which include adequate disclosure) that is material to the financial statements. (As noted previously, reference in this statement to generally accepted accounting principles includes, where applicable, another comprehensive basis of accounting.) Paragraphs .16 through .18 provide guidance to the accountant when the departure relates to the omission of substantially all disclosures in the financial statements. The accountant has compiled. SSARS No. 3 (section 300) provides guidance when the departure is called for by a prescribed form or related instructions. In all other circumstances, if the financial statements are not revised, the accountant should consider whether modification of his standard report is adequate to disclose the departure. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

.42 If the accountant concludes that modification of the standard report is appropriate, the departure should be disclosed in a separate paragraph of the report, including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known.

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23 See footnote 16. [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

24 Normally, neither an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, nor an inconsistency in the application of accounting principles would cause the accountant to modify the standard report provided the financial statements appropriately disclose such matters. Nothing in this statement, however, is intended to preclude an accountant from emphasizing in a separate paragraph of his or her report a matter regarding the financial statements. In evaluating the adequacy of the disclosure of going-concern uncertainties, the accountant should look to the guidance provided in SAS No. 55, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, paragraphs 10 and 11 ([AUS section 341.10 and 311). [Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

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as the result of the accountant's procedures. The accountant is not required to determine the effects of a departure if management has not done so, provided the accountant states in the report that such determination has not been made. Examples of compilation and review reports that disclose departures from generally accepted accounting principles follow.

**Compilation Report**

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

(Separate paragraph)

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

A statement of cash flows for the year ended December 31, 19XX, has not been presented. Generally accepted accounting principles require that such a statement be presented when financial statements purport to present financial position and results of operations.

**Review Report**

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

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

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

(Separate paragraph)

24 If a statement of cash flows is not presented, the first paragraph of the compilation or review report should be modified accordingly. (Footnote renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.)
Statements on Standards for Accounting and Review Services

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

Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.

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

Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.

Subsequent Discovery of Facts Existing at Date of Report

44 Subsequent to the date of the report on the financial statements that the accountant has compiled or reviewed, he may become aware that facts may have existed at that date which might have caused him to believe that information supplied by the entity was incorrect, incomplete, or otherwise unsatisfactory had he then been aware of such facts. In such circumstances, the accountant may wish to consider the guidance in section 561 of Statement on Auditing Standards No. 1 (AU section 561) in determining an appropriate course of action, giving due consideration to the different objectives of compilation, review, and audit engagements. Because of the legal implications involved in actions contemplated under section 561 of SAS No. 1 (AU section 561), the accountant should consider consulting with his attorney.

Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.

Supplementary Information

45 When the basic financial statements are accompanied by information presented for supplementary analysis purposes, the accountant should clearly indicate the degree of responsibility, if any, he or she is taking with respect to such information.

- When the accountant has reviewed the basic financial statements, an explanation should be included in the review report, or in a separate report on the other data. The report should state that the review has been made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles, and either

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a. The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and the accountant did not become aware of any material modifications that should be made to such data, or

b. The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data.

When the accountant has compiled both the basic financial statements and other data presented only for supplementary analysis purposes, the compilation report should refer to the other data or the accountant can issue a separate report on the other data. If a separate report is issued, the report should state that the other data accompanying the financial statements are presented only for supplementary analysis purposes and that the information has been compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data.


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

46 An accountant who has been engaged to audit the financial statements of a nonpublic entity in accordance with generally accepted auditing standards (or an accountant who has been engaged to review the financial statements of a nonpublic entity in accordance with SSARSs) may, before the completion of the audit (review), be requested to change the engagement to a review or compilation (compilation) of financial statements. A request to change the engagement may result from a change in circumstances affecting the entity's requirement for an audit (review), a misunderstanding as to the nature of an audit, review, or compilation, or a restriction on the scope of the audit (review), whether imposed by the client or caused by circumstances.

Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.

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

   a. The reason given for the client's request, particularly the implications of a restriction on the scope of the audit (review), whether imposed by the client or by circumstances.

   b. The additional audit (review) effort required to complete the audit (review).

   c. The estimated additional cost to complete the audit (review).
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[Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

.48 A change in circumstances that affects the entity's requirement for an audit (review), or a misunderstanding concerning the nature of an audit, review or compilation would ordinarily be considered a reasonable basis for requesting a change in the engagement. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

.49 In considering the implications of a restriction on the scope of the audit (review), the accountant should evaluate the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory. Nevertheless, when the accountant has been engaged to audit an entity's financial statements and has been prohibited by the client from corresponding with the entity's legal counsel, the accountant ordinarily would be precluded from issuing a review or compilation report on the financial statements. If in an audit or a review engagement a client does not provide the accountant with a signed representation letter, the accountant would be precluded from issuing a report on the financial statements and would ordinarily be precluded from issuing a compilation report on the financial statements. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

.50 In all circumstances, if the auditing (review) procedures are substantially complete or the cost to complete such procedures is relatively insignificant, the accountant should consider the propriety of accepting a change in the engagement. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

.51 If the accountant concludes, based upon his or her professional judgment, that there is reasonable justification to change the engagement and if he or she complies with the standards applicable to the changed engagement, the accountant should issue an appropriate review or compilation report. The report should not include reference to (a) the original engagement, (b) any auditing or review procedures that may have been performed, or (c) scope limitations that resulted in the changed engagement. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

Comparative Financial Statements

[.52] [Paragraph deleted by the issuance of Statement on Standards for Accounting and Review Services No. 2, November 1979. Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 8, October 2000. Paragraph subsequently renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

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

.53 An accountant is responsible for compliance with Statements on Standards for Accounting and Review Services (SSARSSs) in a review or compilation

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

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engagement. Rule 202 [ET section 202.01] of the Code of Professional Conduct of the American Institute of Certified Public Accountants requires members to comply with such standards when associated with reviewed or compiled financial statements. [Paragraph added, effective for review reports dated January 1, 2003, or after, by Statement on Standards for Accounting and Review Services No. 9.]

.54 An accountant has the responsibility to adopt a system of quality control in conducting an accounting practice. Thus, a firm should establish quality control policies and procedures to provide it with reasonable assurance that its personnel comply with SSARSS in its review and compilation engagements. The nature and extent of a firm's quality control policies and procedures depend on factors such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations. [Paragraph added, effective for review reports dated January 1, 2003, or after, by Statement on Standards for Accounting and Review Services No. 9.]

.55 SSARSSs relate to the conduct on individual review and compilation engagements; Statements on Quality Control Standards (SQCSs) relate to the conduct of a firm's accounting practice. Thus, SSARSSs and SQCSs are related, and the quality control policies and procedures that a firm adopts may affect both the conduct of an individual engagement and the firm's accounting practice as a whole. However, deficiencies in or instances of noncompliance with a firm's quality control policies and procedures do not, in and of themselves, indicate that a particular review or compilation engagement was not performed in accordance with SSARSSs. [Paragraph added, effective for review reports dated January 1, 2003, or after, by Statement on Standards for Accounting and Review Services No. 9.]

Effective Date

.56 This statement is effective for compilations and reviews of financial statements for periods ending on or after July 1, 1979. Paragraphs .01 to .23 and Appendix A [paragraph,.57] and Appendix D [paragraph,.60] are effective for financial statements submitted after December 31, 2000. [Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]

[20] The elements of quality control are identified in Statement on Quality Control Standards (QC No. 2, System of Quality Control for a CPA Firm's Accounting and Auditing Practice [QC section 201]. A system of quality control is broadly defined as a process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality. [Footnote added, effective November 2002, by Statement on Standards for Accounting and Review Services No. 9.]
Appendix A

Compilation of Financial Statements

Will you submit financial statements?

NO
Section 100, Compilation and Review of Financial Statements, is not applicable.

YES

Are any exemptions from Section 100 applicable?

YES
Following the applicable guidance:
- Section 600, Reporting on Personal Financial Statements
- Section 300, Compilation Reports on Financial Statements
- Section 900, "Applicability of Statements on Standards for Accounting and Review Services to Litigation Services" (section 9100.76-79)

NO

Were you engaged to compile and report on financial statements?

YES
Follow the performance requirements in section 100.05 and 100.07-10 AND follow reporting requirements in section 100.11-19.

NO

Do you reasonably expect a third party to use the compiled financial statements?

YES
Follow the performance requirements in section 100.05 and 100.07-10 AND follow the communication requirements in section 100.20-23.
- Compilation report, or
- Engagement letter, preferably signed by management.

NO

(Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.)

Appendix B

Review of Financial Statements—Illustrative inquiries

The inquiries to be made in a review of financial statements are a matter of the accountant's judgment. In determining his inquiries, an accountant may consider (a) the nature and materiality of the items, (b) the likelihood of misstatement, (c) knowledge obtained during current and previous engagements, (d) the stated qualifications of the entity's accounting personnel, (e) the extent to which a particular item is affected by management's judgment, and (f) inadequacies in the entity's underlying financial data. The following list of inquiries is for illustrative purposes only. The inquiries do not necessarily apply to every engagement, nor are they meant to be all-inclusive. This list is not intended to serve as a program or checklist in the conduct of a review; rather it describes the general areas in which inquiries might be made. For example, the accountant may feel it is necessary to make several inquiries to answer one of the questions listed below, such as item 3(a).

1. General
   a. What are the procedures for recording, classifying, and summarizing transactions (relates to each section discussed below)?
   b. Do the general ledger control accounts agree with subsidiary records (for example, receivables, inventories, investments, property and equipment, accounts payable, accrued expenses, non-current liabilities)?
   c. Have accounting principles been applied on a consistent basis?

2. Cash
   a. Have bank balances been reconciled with book balances?
   b. Have old or unusual reconciling items between bank balances and book balances been reviewed and adjustments made where necessary?
   c. Has a proper cutoff of cash transactions been made?
   d. Are there any restrictions on the availability of cash balances?
   e. Have cash funds been counted and reconciled with control accounts?

3. Receivables
   a. Has an adequate allowance been made for doubtful accounts?
   b. Have receivables considered uncollectible been written off?
   c. If appropriate, has interest been reflected?
   d. Has a proper cutoff of sales transactions been made?
   e. Are there any receivables from employees and related parties?
   f. Are any receivables pledged, discounted, or factored?
   g. Have receivables been properly classified between current and noncurrent?
4. Inventories
   a. Have inventories been physically counted? If not, how have inventories been determined?
   b. Have general ledger control accounts been adjusted to agree with physical inventories?
   c. If physical inventories are taken at a date other than the balance sheet date, what procedures were used to record changes in inventory between the date of the physical inventory and the balance sheet date?
   d. Were consignments in or out considered in taking physical inventories?
   e. What is the basis of valuation?
   f. Does inventory cost include material, labor, and overhead where applicable?
   g. Have write-downs for obsolescence or cost in excess of net realizable value been made?
   h. Have proper cutoffs of purchases, goods in transit, and returned goods been made?
   i. Are there any inventory encumbrances?

5. Prepaid Expenses
   a. What is the nature of the amounts included in prepaid expenses?
   b. How are these amounts amortized?

6. Investments, Including Loans, Mortgages, and Intercorporate Investments
   a. Have gains and losses on disposal been reflected?
   b. Has investment income been reflected?
   c. Has appropriate consideration been given to the classification of investments between current and noncurrent, and the difference between the cost and market value of investments?
   d. Have consolidation or equity accounting requirements been considered?
   e. What is the basis of valuation of marketable equity securities?
   f. Are investments unencumbered?

7. Property and Equipment
   a. Have gains or losses on disposal of property or equipment been reflected?
   b. What are the criteria for capitalization of property and equipment? Have such criteria been applied during the fiscal period?
   c. Does the repairs and maintenance account only include items of an expense nature?
   d. Are property and equipment stated at cost?
   e. What are the depreciation methods and rates? Are they appropriate and consistent?

8. Other Assets
   a. What is the nature of the amounts included in other assets?
   b. Do these assets represent costs that will benefit future periods? What is the amortization policy? Is it appropriate?
   c. Have other assets been properly classified between current and noncurrent?
   d. Are any of these assets mortgaged or otherwise encumbered?

9. Accounts and Notes Payable and Accrued Liabilities
   a. Have all significant payables been reflected?
   b. Are all bank and other short-term liabilities properly classified?
   c. Have all significant accruals, such as payroll, interest, and provisions for pension and profit-sharing plans been reflected?
   d. Are there any collateralized liabilities?
   e. Are there any payables to employees and related parties?

10. Long-Term Liabilities
   a. What are the terms and other provisions of long-term liability agreements?
   b. Have liabilities been properly classified between current and non-current?
   c. Has interest expense been reflected?
   d. Has there been compliance with restrictive covenants of loan agreements?
   e. Are any long-term liabilities collateralized or subordinated?

11. Income and Other Taxes
    a. Has provision been made for current and prior-year federal income taxes payable?
    b. Have any assessments or reassessments been received? Are there tax examinations in process?
    c. Are there timing differences? If so, have deferred taxes been reflected?
    d. Has provision been made for state and local income, franchise, sales, and other taxes payable?

12. Other Liabilities, Contingencies, and Commitments
    a. What is the nature of the amounts included in other liabilities?
    b. Have other liabilities been properly classified between current and noncurrent?
c. Are there any contingent liabilities, such as discounted notes, drafts, endorsements, warranties, litigation, and unsettled asserted claims? Are there any unasserted potential claims?

d. Are there any material contractual obligations for construction or purchase of real property and equipment and any commitments or options to purchase or sell company securities?

13. Equity

a. What is the nature of any changes in equity accounts?

b. What classes of capital stock have been authorized?

c. What is the par or stated value of the various classes of stock?

d. Do amounts of outstanding shares of capital stock agree with subsidiary records?

e. Have capital stock preferences, if any been disclosed?

f. Have stock options been granted?

g. Has the entity made any acquisitions of its own capital stock?

h. Are there any restrictions on retained earnings or other capital?

14. Revenue and Expenses

a. Are revenues from the sale of major products and services recognized in the appropriate period?

b. Are purchases and expenses recognized in the appropriate period and properly classified?

c. Do the financial statements include discontinued operations or items that might be considered extraordinary?

15. Other

a. Are there any events that occurred after the end of the fiscal period that have a significant effect on the financial statements?

b. Have actions taken at stockholder, board of directors, or comparable meetings that affect the financial statements been reflected?

c. Have there been any material transactions between related parties?

d. Are there any material uncertainties? Is there any change in the status of material uncertainties previously disclosed?

[Paragraph renumbered by the issuance of Statement on Standards for Accounting and Review Services No. 9, November 2002.]