AR Section 9100

Compilation and Review of Financial Statements: Accounting and Review Services

Interpretations of Section 100

1. Omission of Disclosures in Reviewed Financial Statements

.01 Question—Paragraphs 19.–22. of Statement on Standards for Accounting and Review Services (SSARS) No. 1, Compilation and Review of Financial Statements [sec. 100 par. .19–.22], provides guidance to the accountant when a departure from GAAP relates to the omission of substantially all disclosures in the financial statements that he has compiled. Paragraph 56 of SSARS No. 1 [sec. 100 par. .56] states that, in all other circumstances, an accountant should consider whether modification of his standard report is adequate to disclose a departure from generally accepted accounting principles (GAAP). When a departure from GAAP relates to the omission of substantially all disclosures in financial statements that the accountant has reviewed, is disclosure of such omission in a separate paragraph of the accountant’s report similar to the example in paragraph 22. of SSARS No. 1 [sec. 100 par. .22] an adequate modification of his report?

.02 Interpretation—No. The guidance in paragraphs 19.–22. of SSARS No. 1 [sec. 100 par. .19–.22] only applies when financial statements that the accountant has compiled omit substantially all of the disclosures required by GAAP or an other comprehensive basis of accounting. Because of the reporting requirements of SSARS No. 1 [sec. 100], an accountant ordinarily would not accept an engagement to review financial statements that omit substantially all of the disclosures required by GAAP. When an accountant who undertakes to review financial statements subsequently finds that his client declines to include substantially all required disclosures, his review report should include the disclosures omitted from the statements. However, if the information required to be disclosed has not been determined by management or is not known as the result of the accountant’s procedures, the accountant is not required to determine the specific information that should be disclosed. In that circumstance, the accountant’s report should specifically identify the nature of the omitted disclosures.

[Issue Date: December, 1979; Revised: November, 2002; Revised: May, 2004; Revised: July, 2005.]

2. Financial Statements Included in SEC Filings

.03 Question—SSARSs are applicable to the unaudited financial statements or other unaudited financial information of nonissuers (see definition in paragraph 4. of SSARS No. 1 [sec. 100 par. .04], as amended by footnote 2 of paragraph 1. of SSARS No. 2 [sec. 200 par. .01]. Unaudited financial statements of some nonissuers are occasionally included in documents filed with the Securities and Exchange Commission (SEC). For example, a nonissuer may be required to file unaudited financial statements in connection with the issuance of stock to an employee stock purchase plan or in connection with the sale of cer-
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tain limited partnership units. Do the reporting requirements of SSARS No. 1 [sec. 100] apply in those circumstances?

.04 Interpretation—Deciding whether an entity is a nonissuer for purposes of determining the applicability of SSARS No. 1 [sec. 100] should involve consideration of all relevant facts and the application of professional judgment. Professional standards do not eliminate the need for the exercise of professional judgment, since rules and definitions, no matter how carefully drawn, seldom cover every eventuality.

.05 In the circumstances described in this question, the accountant might note that the definition of a nonissuer contained in SSARS No. 1 [sec. 100], developed from the definition of a publicly traded company in Accounting Principles Board (APB) Opinion No. 28 [AC sec. 173 par. 101], differs from the definition of a nonpublic enterprise in Financial Accounting Standards Board (FASB) Statement No. 21, which excludes any entity "that is required to file financial statements with the Securities and Exchange Commission." This might lead the accountant to consider the significant responsibilities placed on independent accountants by the various securities acts. He might conclude that the users of unaudited financial statements included in documents filed with the SEC have objectives, needs, and expectations different from those of users of the unaudited financial statements of nonissuers that are not included in such filings. He might also conclude that communication with those users, because of the significance they attach to the regulatory and disciplinary responsibilities of the SEC, is not enhanced by including a compilation or review report in a document filed with the SEC, and might responsibly decide that the guidance in Statements on Auditing Standards (SASs) is more appropriate in those circumstances.

[Issue Date: December, 1979; Revised: February, 2008.]

3. Reporting on the Highest Level of Service

.06 Question—Paragraphs 4. and 9. of SSARS No. 1 [sec. 100 par. .04 and 100 par. .09] recognize that an accountant may consider it necessary to perform other accounting services to enable him to compile financial statements. Paragraph 2 of SSARS No. 1 [sec. 100 par. .02] provides that when an accountant performs more than one service with respect to the financial statements of an entity he should issue the report that is appropriate for the highest level of service rendered. Does paragraph 2. of SSARS No. 1 [sec. 100 par. .02] require the accountant to evaluate the extent of other accounting services he has performed in a compilation engagement to report on financial statements and to decide whether a review report should be issued instead of a compilation report?

.07 Interpretation—No. SSARS No. 1 [sec. 100] requires the accountant to issue a report whenever he completes and reports on a compilation or performs a review of the financial statements of a nonissuer. The statement that the accountant should issue a report that is appropriate for the highest level of service rendered is intended to make clear that if, for example, the accountant has both reported on compiled financial statements and reviewed the financial statements that he was engaged to review, he would need to issue only a review report.

.08 SSARS No. 1 [sec. 100] imposes no requirement for the accountant to "upgrade" his report because he has performed other accounting services. However, the accountant may wish to evaluate whether, as a result of performing such services, he is in a position to issue a review report when he was engaged only to report on a compilation. In such circumstances, he may wish to discuss

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the matter with his client and they may decide to revise their understanding regarding the nature of the services to be rendered.

.09 Question—An entity may wish to engage an accountant to report on compiled financial statements each month and also to review the financial statements of the entity for a quarterly or an annual period. May an accountant issue a compilation report on the monthly financial statements and a review report on quarterly or annual financial statements for a period ending on the same date as one of the monthly financial statements?

.10 Interpretation—Yes. An accountant may accept an engagement to report on compiled financial statements for an interim period and an engagement to review the financial statements for another period that ends on the same date, provided he complies with the applicable standards for each engagement.

.11 Question—An accountant who has been engaged to report on a compilation or review of the financial statements of an entity may also be requested to perform a higher level of service with respect to the same financial statements. Is the acceptance of such an engagement appropriate?

.12 Interpretation—Yes. SSARS No. 1 [sec. 100] does not prohibit the accountant from accepting an engagement to perform a higher level of service with respect to financial statements that have been previously compiled or reviewed.

[Issue Date: December, 1979; Revised: October, 2000; Revised: February, 2008.]

[4.] Discovery of Information After the Date of the Accountant’s Report

[.13–.15] [Rescinded, July 2007, by Statement on Standards for Accounting and Review Services No. 15.]

5. Planning and Supervision

.16 Question—Rule 201C, General Standards [ET sec. 201 par. .01C] states: "Adequately plan and supervise the performance of professional services." Although SAS No. 22, Planning and Supervision [AU sec. 311], deals with these matters in the context of an audit in accordance with generally accepted auditing standards, SSARS No. 1 [sec. 100] does not provide specific guidance for the planning and supervision of a compilation or review engagement. In the absence of specific guidance on planning and supervision in SSARS No. 1 [sec. 100], is an accountant required to follow the guidance provided in SAS No. 22 [AU sec. 311] in the context of a compilation or review engagement for a nonissuer?

.17 Interpretation—No. SASs do not govern engagements to compile or review financial statements of a nonissuer. However, an accountant may wish to consider SAS No. 22 [AU sec. 311] or other reference sources, such as textbooks and articles, when he needs additional information on planning and supervision. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

[Issue Date: August, 1981; Revised: November, 2002; Revised: February, 2008.]

6. Withdrawal From Compilation or Review Engagement

.18 Question—Paragraph 58 of SSARS No. 1 [sec. 100 par. .58] states: "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." Under what

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Circumstances would the accountant ordinarily conclude that it is necessary to withdraw from a compilation or review engagement?

19 Interpretation—Modification of the accountant’s standard report as described in paragraph 57. of SSARS No. 1 (sec. 100 par. .57) ordinarily should be adequate to indicate the deficiencies in the financial statements taken as a whole. However, in some circumstances, likely to be rare and unusual, the nature, extent, and probable effect of the departures from GAAP or an other comprehensive basis of accounting might cause the accountant to question whether the departures were undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. In those circumstances, withdrawal from the compilation or review engagement might be necessary; however, the accountant ordinarily would not make a decision to withdraw when the client agreed that the effects of the departures should be determined and disclosed in the accountant’s report.

20 As an illustration, the client may have entered into a number of leasing arrangements that might be required to be capitalized under FASB Statement No. 13 [AC sec. L10]. The client may not wish to capitalize such leases and may not have determined the effect of this departure from GAAP. However, the client may be willing to disclose in the financial statements information such as the nature of the leased property, the payments required under the leases, and other important terms of the leases. In those circumstances, the accountant is not likely to conclude that the departure was undertaken with the intention of misleading users, even though the effect of the departure is not quantified in the financial statements or the accountant’s report.

21 On the other hand, the client may have failed, for example, to make provision for doubtful accounts and probable sales returns in the face of significant adverse business and economic conditions and may be unwilling to acknowledge that an adjustment should be considered. This might cause the accountant to question whether other information provided by the client is incorrect, incomplete, or otherwise unsatisfactory. Also, the accountant’s general knowledge of the entity’s business and related matters might lead him to conclude that this position indicates an intention of misleading users, particularly if the effects of the departure are not determined.

22 The accountant would also withdraw from the compilation or review engagement when the financial statements, including disclosures, are not revised and the client refuses to accept the modified standard report that the accountant believes is appropriate.

[Issue Date: August, 1981; Revised: November, 2002; Revised: May, 2004; Revised: July, 2005.]

7. Reporting When There Are Significant Departures From GAAP

23 Question—When the financial statements include significant departures from GAAP or an other comprehensive basis of accounting, may the accountant modify his standard report under paragraph 57. of SSARS No. 1 (sec. 100 par. .57) to include a statement that the financial statements are not in conformity with GAAP or an other comprehensive basis of accounting?

24 Interpretation—No. Including such a statement in the accountant’s compilation or review report would be tantamount to expressing an adverse opinion on the financial statements taken as a whole. Such an opinion can be expressed only in the context of an audit engagement. Furthermore, such a statement in a review report would confuse users because it would contradict the expression of limited assurance required by paragraph 46.(e) of SSARS No. 1 (sec. 100 par. .46e).
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.25 However, footnote 30 to paragraph 57. of SSARS No. 1 [sec. 100 par. .57, footnote 30] indicates that the accountant is not precluded from emphasizing in a separate paragraph of his report a matter regarding the financial statements. The accountant may wish, therefore, to emphasize the limitations of the financial statements in a separate paragraph of his compilation or review report, depending on his assessment of the possible dollar magnitude of the effects of the departures, the significance of the affected items to the entity, the pervasiveness and overall impact of the misstatements, and whether disclosure has been made of the effects of the departures. Such separate paragraph, which would follow the other modifications of his report (see illustrations in paragraph 57. of SSARS No. 1 [sec. 100 par. .57]), might read as follows:

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

.26 Inclusion of such a separate paragraph in the accountant's compilation or review report is not a substitute for disclosure of the specific departures or the effects of such departures when they have been determined by management or are known as a result of the accountant's procedures. In this connection, see the interpretation entitled "Omission of Disclosures in Reviewed Financial Statements" (paragraphs .01–.02).

[Issue Date: August, 1981; Revised: November, 2002; Revised: May, 2004; Revised: July, 2005.]

[8.] Reports on Specified Elements, Accounts, or Items of a Financial Statement

.27–.28 [Rescinded, July 2005, by Statement on Standards for Accounting and Review Services No. 13.]

9. Reporting When Management Has Elected to Omit Substantially All Disclosures

.29 Question—Paragraph 21. of SSARS No. 1 [sec. 100 par. .21] illustrates a form of standard report appropriate when compiled financial statements omit substantially all disclosures. The third paragraph of that illustrative report begins with this sentence: "Management has elected to omit substantially all of the disclosures . . . required by GAAP." Paragraph 19. of SSARS No. 1 [sec. 100 par. .19] requires the accountant to disclose in his report the fact that compiled financial statements omit substantially all disclosures but does not state that there is a need to indicate that "management has elected" to omit such disclosures. May the accountant modify the wording of his report, for example, to state that "Management has not included substantially all of the disclosures . . . " or "The Company has not included substantially all of the disclosures . . . "?

.30 Interpretation—Use of the language in the third paragraph of the standard report in paragraph 21. of SSARS No. 1 [sec. 100 par. .21] is encouraged; it was designed to impress upon management and the users of financial statements that omission of substantially all disclosures is the entity's decision, not the accountant's. However, provided the report clearly indicates this, the wording "Management has elected to omit" may be modified. Language such as

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"These financial statements do not include substantially all of the disclosures . . . " should not be used because some might infer that the decision to omit disclosures was the accountant’s.

[Issue Date: May, 1982.]

10. Reporting on Tax Returns

.31 Question—May an accountant comply with a request from a nonissuer to issue a compilation or review report on financial information contained in a tax return, as in Form 1040, U.S. Individual Income Tax Return, or Form 1120, U.S. Corporation Income Tax Return, or in an information return, as in Form 990, Return of Organization Exempt from Income Tax, Form 1065, U.S. Partnership Return of Income, or Form 5500, Return of Employee Benefit Plan?

.32 Interpretation—SSARS No. 1 [sec. 100] imposes no requirement on an accountant to report on financial information contained in a tax return. The fact that a return is subsequently used for a purpose other than submission to taxing authorities does not affect that exception. However, an accountant may decide to accept an engagement to issue a compilation or review report on such a return. In that case, he must comply with the applicable performance and reporting standards.

[Issue Date: November, 1982; Revised: February, 2008.]

11. Reporting on Uncertainties

[.33–.40] [Rescinded, February 2007, by the issuance of Interpretation No. 29.]

12. Reporting on a Comprehensive Basis of Accounting Other Than GAAP

[.41–.45] [Rescinded, July 2007, by Statement on Standards for Accounting and Review Services No. 15.]

13. Additional Procedures

.46 Question—Certain procedures, such as confirmation of receivables and observation of inventories, are customarily performed in an audit but not in compilation or review engagements. If an accountant performs such “auditing procedures” in connection with a compilation or review engagement, is he required to change the engagement to an audit?

.47 Interpretation—No. Paragraph 10. of SSARS No. 1 [sec. 100 par. .10] states that in a compilation engagement there is no requirement “to verify, corroborate, or review information,” but it does not preclude the accountant from making inquiries or performing additional procedures. Similarly, paragraph 31. of SSARS No. 1 [sec. 100 par. .31] states that a review engagement “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.” However, it also indicates that there may be circumstances when the accountant “should perform the additional procedures he deems necessary. . . . ” These citations make it clear that the standards for performing compilations or reviews of financial statements do not preclude the accountant from performing procedures that he deems necessary or that his client requests.

[1] [Footnote deleted by SSARS No. 15, July 2007.]

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15. Differentiating a Financial Statement Presentation From a Trial Balance

Question—Paragraph 1. of SSARS No. 1 [sec. 100 par. .01] states that the accountant should not submit unaudited financial statements of a nonissuer to his or her client or a third party unless, as a minimum, he or she complies with the provisions of SSARS No. 1 [sec. 100] applicable to a compilation engagement.

What attributes should an accountant consider when differentiating a financial statement from a trial balance to determine if SSARSs apply to the accounting services performed?

Interpretation—The accountant should consider, among other matters, the following attributes when (1) determining whether a financial presentation is a financial statement or a trial balance and (2) modifying the presentation to eliminate features in the presentation that blur the distinction between a financial statement and a trial balance.

- Generally, a financial statement features the combination of similar general ledger accounts to create classifications or account groupings with corresponding subtotals and totals of dollar amounts. Some examples of these classifications or account groupings are "current assets," "long-term debt," and "revenues." In addition, contra accounts are generally netted against the related primary accounts in financial statement presentations (i.e., "Accounts Receivable Net of Allowance for Bad Debts"). In contrast, a trial balance consists of a listing of all of the general ledger accounts and their corresponding debit or credit balances.

2 If the engagement is to compile financial statements not expected to be used by a third party, a written communication is required.
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- Financial statements generally contain titles that identify the presentation as one intended to present financial position, results of operations, or cash flows. Typical titles for financial statements include:
  a. Balance Sheet
  b. Statement of Income or Statement of Operations
  c. Statement of Comprehensive Income
  d. Statement of Retained Earnings
  e. Statement of Cash Flows
  f. Statement of Changes in Owners' Equity
  g. Statement of Assets and Liabilities (with or without owners' equity accounts)
  h. Statement of Revenue and Expenses
  i. Statement of Financial Position
  j. Statement of Activities
  k. Summary of Operations
  l. Statement of Operations by Product Lines
  m. Statement of Cash Receipts and Disbursements

Examples of typical titles for trial balance presentations are:
  a. Trial Balance
  b. Working Trial Balance
  c. Adjusted Trial Balance
  d. Listing of General Ledger Accounts

- The balance sheet in a set of financial statements segregates asset, liability, and owners' equity accounts and presents these three elements based on the following basic example equation:
  \[
  \text{Assets} = \text{Liabilities} + \text{Owners' Equity}
  \]

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

\[
\text{Revenues} - \text{Expenses} + \text{Gains} - \text{Losses} = \text{Net Income}
\]

In a trial balance, no attempt is made to establish a mathematical relationship among the elements except that total debits equal total credits.

- The income statement in a set of financial statements generally contains a caption such as "Net Income" or "Net Revenues over Expenses" that identifies the net results of operations. Trial balance presentations generally do not contain similar captions.

- The balance sheet in a set of financial statements usually presents assets in the order of their liquidity and liabilities in the order of their maturity. In a trial balance, the accounts are generally listed in account number order as they appear in the general ledger.

- In a set of financial statements, the income statement articulates with the balance sheet because the net results of operations are added to or subtracted from opening retained earnings. In a trial balance, the net results of operations are generally not closed out to retained earnings.
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.57 The accountant should use judgment when considering these attributes to determine whether the financial presentation constitutes a financial statement or a trial balance. When making this determination, the accountant should consider the preponderance of the attributes of the financial presentation. For example, a trial balance that contains one or two attributes of a financial statement may, in the accountant’s judgment, still constitute a trial balance. When the presentation is deemed to be a financial statement and the accountant does not modify the presentation to conform with the attributes of a trial balance, the accountant, at a minimum, should compile the financial statements in accordance with SSARS No. 1 [sec. 100].

[Issue Date: September, 1990; Revised: October, 2000; Revised: February, 2008.]

[16.] Determining if the Accountant Has “Submitted” Financial Statements Even When Not Engaged to Compile or Review Financial Statements

.58–.60 [Withdrawn, November 1992, by SSARS No. 7.]

17. Submitting Draft Financial Statements

.61 Question—Accountants frequently submit draft financial statements (1) because information needed to complete a compilation or review of the financial statements will not be available until a later date or (2) to provide the client with the opportunity to read and analyze the financial statements prior to their final issuance. Is it permissible for the accountant to submit draft financial statements without intending to comply with the reporting provisions of SSARS No. 1 [sec. 100]?

.62 Interpretation—Except in those instances where the financial statements are not expected to be used by a third party, as permitted under paragraphs 24 through 27 of SSARS No. 1 [sec. 100 par. .24–.27], an accountant should not submit draft financial statements without intending to submit those financial statements in final form accompanied by an appropriate compilation or review report prescribed by SSARS No. 1 [sec. 100]. However, as long as the accountant intends to submit the financial statements in final form and labels each page of draft financial statements with words such as “Draft,” “Preliminary Draft,” “Draft—Subject to Changes,” or “Working Draft,” the accountant is not required to comply with the reporting provisions of SSARS No. 1 [sec. 100] with respect to those draft financial statements. In the rare circumstance where the accountant intended to but never submitted final financial statements, the accountant may want to document the reasons why he or she was unable to submit those financial statements.

[Issue Date: September, 1990; Revised: October, 2000.]

[18.] Special-Purpose Financial Presentations to Comply With Contractual Agreements or Regulatory Provisions

.63–.72 [Rescinded, September 2005, by the Accounting and Review Services Committee.]

[3] [Footnote deleted by the issuance of SSARS No. 7, November 1992.]
[4-9] [Footnotes deleted, September 2005.]
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19. Reporting When Financial Statements Contain a Departure From Promulgated Accounting Principles That Prevents the Financial Statements From Being Misleading

.73 Question—Rule 203, Accounting Principles [ET sec. 203 par. .01], of the AICPA Code of Professional Conduct states:

A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with GAAP or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with GAAP, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

Paragraphs 56–58 of SSARS No. 1 [sec. 100 par. .56–.58] do not address the Rule 203 [ET sec. 203 par. .01] circumstances. When the circumstances contemplated by Rule 203 [ET sec. 203 par. .01] are present, how should the accountant report on the information described in the rule?

.74 Interpretation—When the circumstances contemplated by Rule 203 [ET sec. 203 par. .01] are present in a review engagement, the accountant’s review report should include, in a separate paragraph or paragraphs, the information required by Rule 203 [ET sec. 203 par. .01]. In such a case, the accountant would not modify the standard review report, except for the addition of the separate paragraph(s) that contains the information required by Rule 203 [ET sec. 203 par. .01], unless there are other reasons to do so that are not associated with the departure from a promulgated principle.

.75 Rule 203 [ET sec. 203.01] does not apply to engagements to report on a compilation. Accordingly, when the accountant is reporting on a compilation engagement and is confronted with the circumstances contemplated by Rule 203 [ET sec. 203.01], the guidance in paragraphs 56–58 of SSARS No. 1 [sec. 100.56–.58] pertaining to departures from GAAP should be followed.

[Issue Date: February, 1991; Revised: October, 2000; Revised: November, 2002; Revised: May, 2004; Revised: July, 2005.]

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

.76 Question—When are litigation services excluded from the applicability of SSARS?

.77 Interpretation—SSARS do not apply to financial statements submitted in conjunction with litigation services that involve pending or potential formal legal or regulatory proceedings before a “trier of fact”¹⁰ in connection with the resolution of a dispute between two or more parties when the:

¹⁰ A “trier of fact” in this section means a court, regulatory body, or government authority; their agents; a grand jury; or an arbitrator or mediator of the dispute. [Footnote renumbered by the revision to Interpretation No. 18, January 2004.]

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(a) Service consists of being an expert witness.
(b) Service consists of being a “trier of fact” or acting on behalf of one.
(c) Accountant’s work under the rules of the proceedings is subject to detailed analysis and challenge by each party to the dispute.
(d) Accountant is engaged by an attorney to do work that will be protected by the attorney’s work product privilege and such work is not intended to be used for other purposes.

When performing such litigation services the accountant should comply with Rule 201 [ET sec. 201 par. .01].

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

.79 Interpretation—SSARSs apply to litigation service engagements when the accountant:

a. Submits unaudited financial statements of a nonissuer that are the representation of management (owners) to others who under the rules of the proceedings do not have the opportunity to analyze and challenge the accountant’s work, or
b. Is specifically engaged to submit, in accordance with SSARSs, financial statements that are the representation of management (owners).

[Issue Date: May, 1991; Revised: October, 2000; Revised: February, 2008.]

21. Applicability of SSARS No. 1 When Performing Controllership or Other Management Services

.80 Question—An accountant is in the practice of public accounting and provides an entity with controllership or other management services that entail the submission of financial statements. Is the accountant required to follow the requirements of SSARS No. 1 [sec. 100]?

.81 Interpretation—if the accountant is in the practice of public accounting as defined by the AICPA’s Code of Conduct [ET sec. 92 par. .25] and is not a stockholder, partner, director, officer, or employee of the entity, the accountant is required to follow the performance and communication requirements of SSARS No. 1 [sec. 100], including any requirement to disclose a lack of independence.11

.82 If the accountant is in the practice of public accounting and is also a stockholder, partner, director, officer, or employee of the entity, the accountant may either (1) comply with the requirements of SSARS No. 1 [sec. 100], or (2) communicate, preferably in writing, the accountant’s relationship to the entity (for example, stockholder, partner, director, officer, or employee).12

.83 The following is an example of the type of communication that may be used by the accountant:

The accompanying balance sheet of Company X as of December 31, 20XX, and the related statements of income and cash flows for the year then ended have

11 If the compilation is not intended for third party use, SSARS No. 1 as amended by SSARS No. 8 [sec. 100].may be appropriate. [Footnote renumbered by the revision to Interpretation No. 18, January 2004.]

12 The accountant should refer to Ruling No. 10, “Submission of Financial Statement by a Member in Public Practice,” of ET section 291, Ethics Rulings on General and Technical Standards [ET sec. 291 par. .019–.020], for additional guidance. [Footnote renumbered by the revision to Interpretation No. 18, January 2004.]
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been prepared by [name of accountant], CPA. I have prepared such financial statements in my capacity [describe capacity, for example, as a director] of Company X.

.84 If an accountant is not in the practice of public accounting, the issuance of a report under SSARS would be inappropriate; however, the above communication may be used.

[Issue Date: July, 2002.]

22. Use of “Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included”

.85 Question—Can an accountant label notes to the financial statements “Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included” when the client includes more than a few required disclosures?

.86 Interpretation—No. As discussed in paragraph 19. of SSARS No. 1 [sec. 100 par. .19], when the entity wishes to include disclosures about only a few matters in the form of notes to the financial statements, such disclosures should be labeled “Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included.”

.87 When the financial statements include more than a few disclosures, this guidance is not appropriate. The omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation or review report like any other departure from GAAP, and the nature of the departure and its effects, if known, should be disclosed.

.88 The label “Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included” should not be used in situations where substantially all disclosures are included. The label “Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included” is not intended to be used for the omission of (intentionally or unintentionally) one or more disclosures and the accountant should use his or her judgment in determining the appropriateness of the label.

[Issue Date: December, 2002.]

23. Applicability of Statements on Standards for Accounting and Review Services When an Accountant Engaged to Perform a Business Valuation Derives Information From an Entity’s Tax Return

.89 Question—When an accountant is engaged to perform a business valuation of an entity, it may be necessary for the accountant to derive financial information to be used in that business valuation from the client’s tax return. This is particularly true if the entity does not have audited, reviewed, or compiled financial statements. If an accountant derives financial information from an entity’s tax return, and such information is presented as part of the business valuation report, do SSARSs apply?

.90 Interpretation—No. As discussed in paragraph 4. of SSARS No. 1 [sec. 100 par. .04], under the definition of a financial statement, “Financial forecasts, projections and similar presentations, and financial presentations included in tax returns are not financial statements for purposes of this Statement.” Therefore, even if the accountant has prepared the tax return, he or she has not prepared financial statements in accordance with SSARSs and the financial information derived from the tax return and presented as part of a business valuation report does not qualify as a financial statement for purposes of SSARSs.
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valuation is not deemed to be submission of financial statements as contemplated by SSARS No. 1 [sec. 100].

.91 When an accountant, in the course of performing a business valuation engagement, derives financial information from the client’s tax return, or another accountant’s audited, reviewed, or compiled financial statements, or client-prepared financial statements, the accountant should refer to the source of the financial information and include an indication in the business valuation report that the accountant has not audited, reviewed, or compiled the financial information and that the accountant assumes no responsibility for the information. (See paragraph 3. of SSARS No. 1 [sec. 100 par. .03].) The following is an example of wording that may be included in the business valuation report which incorporates the requirements of paragraph 3. of SSARS No. 1 [sec. 100 par. .03]:

In preparing our business valuation report, we have relied upon historical financial information provided to us by management and derived from [refer to the appropriate source of the information, such as tax return, audit report issued by another auditor, and so on]. This financial information has not been audited, reviewed, or compiled by us and accordingly we do not express an opinion or any form of assurance on this financial information.

.92 However, if the accountant submits financial statements in the course of performing a business valuation as defined in paragraph 4. of SSARS No. 1 [sec. 100 par. .04], then, at a minimum, the accountant should comply with the provisions of SSARSs applicable to a compilation engagement.

[Issue Date: August, 2003.]

24. Reference to the Country of Origin in a Review or Compilation Report

.93 Question—When issuing a compilation or review report, may the accountant reference the country of origin of the accounting principles used to prepare the financial statements?

.94 Interpretation—Yes. Although SSARSs do not require the reference to the country of origin, there is no prohibition to referencing the country of origin in either a compilation or review report.

Because a compilation report does not reference the accounting criteria, the accountant may include a reference to the country of origin in an emphasis of matter paragraph such as the following:

As disclosed in note X, the accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The accountant may modify the third paragraph of the standard review report to read as follows:

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

[Issue Date: September, 2003; Revised: May, 2008]

25. Omission of the Display of Comprehensive Income in a Compilation

.95 Question—When an element of comprehensive income is present, can the display of comprehensive income be omitted when issuing a compilation report with substantially all disclosures omitted?
Interpretation—Yes. FASB Statement No. 130, Reporting Comprehensive Income, requires the display of comprehensive income when a full set of financial statements is presented in conformity with GAAP. However, the display of comprehensive income may be omitted by identifying the omission in the compilation report or engagement letter (SSARS No. 8, Amendment to Statement on Standards for Accounting and Review Services No. 1, Compilation and Review of Financial Statements [sec. 100]). The following is suggested modified wording (shown in italic) to the standard compilation report found in paragraph 21. of SSARS No. 1 [sec. 100 par. .21]:

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

In addition, if the accountant issues a compilation report on financial statements that omit substantially all disclosures and the display of comprehensive income but include the statement of cash flows, the following is suggested modified wording (shown in italic) to the compilation report found in paragraph 21. of SSARS No. 1 [sec. 100 par. .21]:

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

If the accountant compiles financial statements that include all disclosures but omit the display of comprehensive income, the omission should be treated as a departure from GAAP.

Additionally, if an element of comprehensive income has not been computed, for example, unrealized gains and losses arising from investments in marketable securities classified as “available for sale” then the accountant should consider a departure from GAAP and follow the guidance in paragraphs 56.–58. of SSARS No. 1 [sec. 100 par. .56–.58].

[Issue Date: September, 2003; Revised: May, 2004; Revised: July 2005.]

26. Communicating Possible Fraud and Illegal Acts to Management and Others

[.100–.103][13-14] [Rescinded, July 2005, by SSARS No. 12.]

27. Applicability of Statements on Standards for Accounting and Review Services to Reviews of Nonissuers Who Are Owned by or Controlled by an Issuer

Question—A subsidiary of an issuer has requested that its financial statements be reviewed for the purpose of providing those subsidiary financial

[13-14] [Footnotes deleted by the issuance of SSARS No. 12, July 2005.]

An “issuer” as defined in Section 2 of The Sarbanes-Oxley Act of 2002 means “an issuer (as defined in Section 3 of the Securities and Exchange Act of 1934), the securities of which are registered under Section 12 of that act, or that is required to file reports under Section 15(d), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933, and that it has not withdrawn.”

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statements and the accountant’s review report to a local bank as a condition of a new borrowing arrangement. Because the entity is a subsidiary of a public company, its auditors have applied auditing and review procedures in accordance with the professional standards of the Public Company Accounting Oversight Board (PCAOB) at the subsidiary level.

What authoritative standards should an accountant follow when engaged to review the separate financial statements of a subsidiary, which itself is not an issuer?

.105 Interpretation—SSARS No. 1 [sec. 100 par. .04] defines an issuer as:

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).

.106 The condition set forth in (c) above is intended to be read in the context of when the review of the subsidiary, corporate joint venture, or other entity is being performed for the purpose of the controlling entity (the issuer) meeting its reporting obligations as a result of conditions (a) or (b).

.107 For example, if a subsidiary is being reviewed at an interim period as part of an entity’s filing of its consolidated interim financial statements with the SEC, then the review should be performed in accordance with PCAOB standards and SSARSs are not applicable because the review is in the context of the issuer meeting its reporting obligations as a result of conditions (a) or (b).

.108 However, in the situation where an accountant is engaged to review the financial statements of a subsidiary, corporate joint venture, or other entity that is not itself an issuer and the review report and reviewed financial statements are not being filed with the SEC, or another regulatory agency that requires the accountant to prepare the review report in accordance with PCAOB standards, the accountant should perform the review in accordance with SSARSs since the review engagement is not being performed in the context of the issuer meeting its reporting obligations as a result of conditions (a) or (b).

[Issue Date: August, 2005.]

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

.109 Question—An accountant may be asked to compile or review special-purpose financial statements prepared to comply with a contractual agreement or regulatory provision that specifies a special basis of presentation. In most circumstances, these financial statements are intended solely for the use of the parties to the agreement, regulatory bodies, or other specified parties. How should the accountant modify the standard compilation or review report when reporting on these special-purpose financial statements?

.110 Interpretation—An accountant who is asked to compile or review special-purpose financial statements prepared to comply with a contractual agreement or a regulatory provision that specifies a special basis of

16 A contractual agreement as discussed in this interpretation is an agreement between the client and one or more third parties other than the accountant.
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presentation17 may issue a compilation or review report on those financial statements in accordance with SSARS 1, as amended [sec. 100] as described in this interpretation. This interpretation describes reporting on:

a. Special-purpose financial statements prepared in compliance with a contractual agreement or regulatory provision that does not constitute a complete presentation of the entity’s assets, liabilities, revenues and expenses, but is otherwise prepared in conformity with GAAP or an other comprehensive basis of accounting.

or

b. A special-purpose financial presentation (may be a complete set of financial statements or a single financial statement) prepared on a basis of accounting prescribed in an agreement that does not result in a presentation in conformity with GAAP or an other comprehensive basis of accounting.

Financial Statements Prepared on a Basis of Accounting Prescribed in a Contractual Agreement or Regulatory Provision That Results in an Incomplete Presentation but One That Is Otherwise in Conformity With GAAP or an Other Comprehensive Basis of Accounting

.111 An entity may engage an accountant to compile or review a special-purpose financial statement prepared in compliance with a contractual agreement or regulatory provision that does not constitute a complete presentation of the entity’s assets, liabilities, revenues, or expenses, but is otherwise prepared in conformity with GAAP or Other Comprehensive Basis of Accounting (OCBOA). For example, a governmental agency may require a statement of gross income and certain expenses of an entity’s real estate operation in which income and expenses are measured in conformity with GAAP, but expenses are defined to exclude certain items such as interest, depreciation, and income taxes. Such a statement may also present the excess of gross income over defined expenses. Also, a buy-sell agreement may specify a statement of gross assets and liabilities of the entity measured in conformity with GAAP, but limited to the assets to be sold and liabilities to be transferred pursuant to the agreement.

.112 When the accountant submits compiled or reviewed special-purpose financial statements prepared on a basis of accounting prescribed in a contractual agreement or regulatory provision that results in an incomplete presentation but one that is otherwise prepared in conformity with GAAP or OCBOA, the accountant’s report should be modified to include an explanatory paragraph with the following information:

• An explanation of what the financial statement is intended to present and a reference to the note to the special-purpose financial statement that describes the basis of presentation.

• If the basis of presentation is in conformity with GAAP or OCBOA, a statement that the presentation is not intended to be a complete presentation of the entity’s assets, liabilities, revenues, and expenses.

17 When the contractual agreement or regulatory provision specifies the use of a prescribed form for which the accountant has been engaged to compile the financial statements identified therein, the accountant should reference SSARS 3, Compilation Reports on Financial Statements Included in Certain Prescribed Forms [sec. 300], for an alternative form of standard compilation report when the prescribed form calls for a departure from GAAP or an other comprehensive basis of accounting.

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- A separate paragraph at the end of the report stating that the report is intended solely for the information and use of those within the entity, the parties to the contract or agreement, the regulatory agency with which the report is being filed, or those with whom the entity is negotiating directly, and is not intended to be and should not be used by anyone other than these specified parties.

.113 The following is an illustrative example of a compilation report on special-purpose financial statements:

I (we) have compiled the accompanying statement of net assets sold of XYZ Company as of December 31, 20X1, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

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

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

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

.114 The following is an illustrative example of a review report on special-purpose financial statements:

I (we) have reviewed the accompanying statement of gross income and direct operating expenses of XYZ Company for the year ended December 31, 20X1, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in this statement is the representation of management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted 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.

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

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

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

The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.

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An entity may engage an accountant to compile or review a special-purpose financial statement prepared in conformity with a basis of accounting that departs from GAAP or an OCBOA. A loan agreement, for example, may require the borrower to prepare consolidated financial statements in which assets, such as inventory, are presented on a basis that is not in conformity with GAAP or an OCBOA. Also, an acquisition agreement may require the financial statements of the entity being acquired (or a segment of it) to be prepared in conformity with GAAP except for certain assets, such as receivables, inventories, and properties for which a valuation basis is specified in the agreement.

Financial statements prepared under a basis of accounting as discussed above are not considered to be prepared in conformity with an OCBOA because the criteria used to prepare such financial statements do not meet the requirement of being “criteria having substantial support,” even though the criteria are definite.

When the accountant submits compiled or reviewed special-purpose financial statements prepared on a basis of accounting prescribed in an agreement that results in a presentation that is not in conformity with GAAP or OCBOA, the accountant’s report should be modified to include an explanatory paragraph with the following information:

- An explanation of what the presentation is intended to present and a reference to the note to the special-purpose financial statements that describes the basis of presentation.
- A statement that the financial statement is not intended to be a presentation in conformity with GAAP or an OCBOA.
- A description and the source of significant interpretations, if any, made by the Company’s management relating to the provisions of a relevant agreement.
- A separate paragraph at the end of the report stating that the report is intended solely for the information and use of those within the entity, the parties to the contract or agreement, the regulatory agency with which the report is being filed, or those with whom the entity is negotiating directly, and is not intended to be and should not be used by anyone other than these specified parties. For example, if the financial statements have been prepared for the specified purpose of obtaining bank financing, the report’s use should be restricted to the various banks with whom the entity is negotiating the proposed financing.

The following is an illustrative example of a compilation report on special-purpose financial statements:

I (we) have compiled the special-purpose statement of assets and liabilities of XYZ Company as of December 31, 20X1, and the related special-purpose statements of revenue and expenses and of cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying statement and, accordingly, do not express an opinion or any other form of assurance on it.
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The accompanying special-purpose financial statements were prepared for the purpose of complying with the acquisition agreement between ABC Company and XYZ Company as discussed in Note A, and are not intended to be a presentation in conformity with GAAP.

This report is intended solely for the information and use of [the specified parties]\(^{20}\) and is not intended to be and should not be used by anyone other than these specified parties.

.119 The following is an illustrative example of a review report on special-purpose financial statements:

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

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted 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.

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

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

This report is intended solely for the information and use of the [specified parties]\(^{21}\) and should not be used by anyone other than these specified parties.

[Issue Date: December, 2006.]

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

.120 Question—How should an accountant modify the standard compilation or review report when, during the performance of compilation or review procedures, evidence or information comes to the accountant’s attention that there may be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being compiled or reviewed?

.121 Interpretation—As stated in footnote 30 in paragraph .57 of section 100, "Normally, neither an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, nor an inconsistency in

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\(^{20}\) The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.

\(^{21}\) The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.
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the application of accounting principles would cause the accountant to modify the standard report provided the financial statements appropriately disclose such matters.” Disclosure requirements with respect to uncertainties are included in Statement of Position (SOP) 94-6, Disclosure of Certain Significant Risks and Uncertainties, and FASB Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, and other authoritative accounting literature. However, the accounting literature does not provide specific guidance on disclosure of uncertainties caused by concern about an entity’s ability to continue as a going concern. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

Continuation of an entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. The accountant should follow the guidance in paragraphs .69–.72 of section 100 with respect to his or her consideration of the entity’s ability to continue as a going concern during the performance of compilation or review procedures. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

If the accountant concludes that management’s disclosure of the uncertainty regarding the entity’s ability to continue as a going concern is adequate but further decides to include an emphasis of a matter paragraph with respect to the uncertainty in the accountant’s compilation or review report, he or she may use the following language:

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

If the accountant determines that the disclosure of the uncertainty is not in accordance with GAAP, he or she should follow the guidance in paragraphs .46–.48 of section 100. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

If the accountant concludes that management’s disclosure of the uncertainty is in accordance with GAAP but further decides to include an emphasis of a matter paragraph with respect to the uncertainty in the accountant’s compilation or review report, he or she may use the following language:

As discussed in Note X, the Company is currently named in a legal action.

The Company has determined that it is not possible to predict the eventual

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outcome of the legal action but has determined that the resolution of the action will not result in an adverse judgment that would materially affect the financial statements. Accordingly, the accompanying financial statements do not include any adjustments related to the legal action under FASB SFAS No. 5.

.128 Question—Paragraph .19 of section 100 allows the accountant, when he or she is requested to do so, to compile financial statements that omit substantially all of the disclosures required by GAAP, provided the report clearly indicates the omission and the client’s decision to omit the disclosures was not, to the accountant’s knowledge, undertaken with the intention of misleading users of the statements. Should disclosure of an uncertainty be considered so significant that it also could never be omitted? [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

.129 Interpretation—No. The user is adequately warned of the limitations of the financial statements by the report language suggested in paragraph .22 of section 100. [As amended, effective for compilations and reviews of financial statements for periods ending after December 15, 2008, by SSARS No. 17.]

[Issue date: February 2007; Revised: February, 2008.]


.130 Question—Section 100 provides guidance regarding accountant’s reports issued in connection with compilations and reviews of historical financial statements prepared in accordance with either GAAP or an other comprehensive basis of accounting. May an accountant apply the reporting guidance in section 100 when engaged to report on financial statements presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)?

.131 Interpretation—Yes. The IASB has been designated by the Council of the AICPA as the body to establish international financial reporting standards for both private and public entities pursuant to Rule 202, Compliance With Standards, and Rule 203, Accounting Principles, of the AICPA Code of Professional Conduct [ET sec. 202 par. .01 and ET sec. 203 par. .01] as of May 18, 2008. Accordingly, an accountant may apply the reporting guidance in section 100 when reporting on financial statements presented in accordance with IFRS as issued by the IASB.

When the accountant compiles financial statements prepared in accordance with IFRS as issued by the IASB, the accountant may wish to add an emphasis of matter paragraph such as the following:

As disclosed in note X, the accompanying financial statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

When the accountant compiles financial statements that omit substantially all disclosures but are otherwise in conformity with IFRS as issued by the IASB, the accountant may wish to modify the third paragraph of the standard report as follows:

Management has elected to omit substantially all disclosures (and the statement of cash flows) required by International Financial Reporting Standards.

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as issued by the International Accounting Standards Board. If the omitted disclosures and statement were included in the financial statements, they might influence the user’s conclusions about the company’s financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

When the accountant reviews financial statements prepared in accordance with IFRS as issued by the IASB, an example of the third paragraph of the accountant’s review report follows:

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 International Financial Reporting Standards as issued by the International Accounting Standards Board.

An entity may prepare financial statements in conformity with a jurisdictional variation of IFRS such that the entity’s financial statements do not contain an explicit and unreserved statement of compliance with IFRS as issued by the IASB. Because the council of the AICPA has not designated bodies other than the IASB to establish IFRS, paragraphs .56–.58 of section 100 apply.

If financial statements are presented in conformity with both IFRS as issued by the IASB and a jurisdictional variation of IFRS (for example, financial statements prepared in conformity with IFRS as issued by the IASB and with IFRS as endorsed by the European Union), an accountant may follow the guidance as described previously.

Question—May a U.S. accountant perform a compilation or review of historical financial statements of a U.S. entity in accordance with International Standard on Related Service (ISRS) 4410, Engagements to Compile Financial Statements, or International Standard on Review Engagements (ISRE) 2400, Engagements to Review Financial Statements, respectively? The financial statements may have been prepared in accordance with IFRS or accounting principles generally accepted in the United States of America.

Interpretation—Yes. An accountant performing a compilation or review of historical financial statements of a U.S. entity is required to follow the compilation and review standards as promulgated by the AICPA’s Accounting and Review Services Committee. However, those standards do not prohibit an accountant from indicating that the compilation or review also was conducted in accordance with another set of compilation or review standards. In an engagement to compile the historical financial statements in accordance with ISRS 4410, the accountant may perform the compilation in accordance with section 100 as well as ISRS 4410. Such a compilation report may read as follows:

I (we) have compiled 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 and in accordance with the International Standard on Related Services applicable to compilation engagements.

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.

22 A U.S. entity is an entity that is either organized or domiciled in the United States of America.
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In an engagement to review the historical financial statements in accordance with ISRE 2400, the accountant may perform the review in accordance with section 100 as well as ISRE 2400. Such a review report may read as follows:

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 and in accordance with International Standard on Review Engagement 2400. All information included in these financial statements is the representation of management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America or in accordance with International Standards on Auditing, 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 accounting principles generally accepted in the United States of America (or International Financial Reporting Standards as issued by the International Accounting Standards Board).

[Issue Date: May, 2008.]

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