

## **Compilation and Review: TOP 10 ISSUES**

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- Additionally, the professional standards, pronouncements, procedures, and statutes may change from time to time. It is considered the participant's responsibility to stay current and updated on these issues.
- Some reproduction of the standards may not be complete. See the actual for completeness.

# **Issue Number 1.**

## **Impact of Ethics and the FASB's Accounting Standards Codification**

### **Ethics (ET)**

- The Code of Professional Conduct has two sections:
  - Principles
  - Rules
- The rules find their framework in the principles.
- The bodies or groups who set the technical standards are authorized by the Council of the AICPA.
- The bylaws of the AICPA require compliance to rules and standards.
- Ethical standards may also come from other agencies.

## AICPA's Code of Professional Conduct

- ***The code of professional conduct was adopted by the membership to provide guidance and rules to all members – those in public practice, in industry, in government, and in education – in the performance of their professional responsibilities.***

## Accounting Standards

- Generally Accepted Accounting Principles (GAAP)
- Agreement on a body of GAAP
- Rule 203 AICPA Code of Professional Conduct
- Obviously, accounting standards (GAAP) apply to Compilation and Review Engagements.

## **ET Section 203 Accounting Principles**

- **.01 Rule 203—Accounting principles**
- 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 generally accepted accounting principles 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 generally accepted accounting principles, 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.

## **203-2—Status of FASB, GASB and FASAB interpretations**

- **.03** Council is authorized under rule 203 [ET section 203.01] to designate bodies to establish accounting principles.
- Council has designated the Financial Accounting Standards Board (FASB) as such a body and has resolved that FASB Accounting Standards Codification™ (ASC) constitutes accounting principles as contemplated in rule 203 [ET section 203.01].
- Council has also designated the Governmental Accounting Standards Board (GASB), with respect to Statements of Governmental Accounting Standards issued in July 1984 and thereafter, as the body to establish financial accounting principles for state and local governmental entities pursuant to rule 203 [ET section 203.01].

## News Release

- On July 1, 2009, the *FASB Accounting Standards Codification™* became the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, AICPA, EITF, and related literature.
- After that date, ***only one level of authoritative GAAP will exist***, excluding the guidance issued by the Securities and Exchange Commission (SEC). All other literature will be nonauthoritative.

## News... (cont)

- The Codification does not change GAAP; instead, it introduces a new structure—one that is organized into an easily accessible, user-friendly online research system.
- The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting Topics, and displays all Topics using a consistent structure.
- Also included is relevant SEC guidance that follows the same topical structure used in the Codification.

## **News (cont)**

- The new system:
  - reduces the amount of time and effort required to solve an accounting research issue;
  - mitigates the risk of noncompliance with standards through improved usability of the literature;
  - provides accurate information with real-time updates as new standards are released; and
  - assists the FASB with the research and convergence efforts required during the standard-setting process.

## **News (cont)**

- To prepare constituents for the change, the FASB offers a free online Codification tutorial at <http://asc.fasb.org>.
- In addition, there is a recorded webcast at [www.fasb.org](http://www.fasb.org).
- For more information, log on to [www.fasb.org](http://www.fasb.org).

## **Issue Number 2.**

### **SSARS 19**

### **SSARS 19**

- **SSARS 19, *Compilation and Review Engagements*, was issued on December 30, 2009.**
- It is effective for compilations and reviews of financial statements for periods ending on or after December 15, 2010.
- **Only the new compilation report option of paragraph 2.21 may be implemented immediately.**

## Actual Paragraph

- Paragraph 2.21 of SSARS 19, ***Compilation and Review Engagements***
  - *2.21 When the accountant is issuing a report with respect to a compilation of financial statements for an entity, with respect to which an accountant is not independent, the accountant's report should be modified. The accountant should indicate his or her lack of independence in a final paragraph of the accountant's compilation report. An example of such a disclosure would be:*

## Actual Paragraph (cont)

- 2.21 (cont)
  - *I am (We are) not independent with respect to XYZ Company*
  - *The accountant is not precluded from disclosing a description about the reason(s) that his or her independence is impaired. The following are examples of descriptions the accountant may use:*

## Actual Paragraph (cont)

- 2.21 (cont)
  - ***a. I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company.***

## Actual Paragraph (cont)

- 2.21 (cont)
  - ***b. I am (we are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company; or***

## Actual Paragraph (cont)

- 2.21
- *c. I am (we are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (we) performed certain accounting services (the accountant may include a specific description of those services) that impaired my (our) independence.*

## Actual Paragraph (cont)

- 2.21 (cont)
- *If the accountant elects to disclose a description about the reasons his or her independence is impaired, the accountant should ensure that all reasons are included in the description.*

## SSARS 19 (cont)

- Pre SSARS 19, there was a prohibition for disclosing reason for not being independent in compilations.
- SSARS 19 eliminates the prohibition.
- **Review engagements may not be performed when not independent.**

## SSARS 19 (cont)

- Disclosure of the reason for independence impairment is optional for compilations issued after December 30, 2009.
- The CPA may still report that they are not independent without a reason as always.

## SSARS 19 (cont)

- Professional judgment is needed for the option of paragraph 2.21.
- The CPA should know the users of the compiled financials like:
  - Is the impairment understood?
  - Is the information useful?

## SSARS 19 (cont)

- If a reason for impairment is disclosed, the CPA should disclose **all** of the reasons.
- The reason(s) may be in one paragraph.
- The disclosures are not limited.
  - Should not be misleading.
  - Detail should be appropriate and may be as much as CPA wants to provide.

## SSARS 19 (cont)

- Disclosure of reasons for independence impairment may be made in one period and not in another for same client.
- Disclosure of reasons for independence impairment is not required for all compilations of all clients if one client is disclosed.

## SSARS 19 (cont)

- Other issues in SSARS 19 (which are not effective until after December 15, 2010 include:
  - Guidance for Review Engagements is separated from Compilations.
  - New Compilation and Review Reports.
  - Obtaining limited assurance in reviews.
  - ***Review Evidence*** is included now.

## **SSARS 19 (cont)**

- Other issues continued:
  - Tailoring review procedures.
  - Materiality discussions in reviews.
  - An engagement letter would be required in all compilation and review engagements.
  - Documentation requirements.

## **Differs from Exposure Draft**

- SSARS 19 as issued differs from the Exposure Draft issued April 28, 2009.
  - Retains Limited Assurance rather than switch to Moderate Assurance
  - Matches some of the concepts in International Standards.
  - No reviews with an independence impairment.

## International Compilation and Review Standards

- The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) has issued International Standard on Related Services (ISRS) 4410, ***Engagements to Compile Financial Statements***, and International Standard on Review Engagements (ISRE) 2400, ***Engagements to Review Financial Statements***.

## International Compilation and Review Standards (cont)

- The purpose of the ISRS and ISRE is to:
  - Establish international standards and provide guidance on the accountant's professional responsibilities when engaged to compile or review financial statements.
  - Provide guidance on the form and content of the report the accountant issues for that compilation or review.

## International Compilation and Review Standards (cont)

- ISRS 4410 and ISRE 2400 can be found in IFAC's ***Handbook of International Auditing, Assurance, and Ethics Pronouncements***.
- The reference is available at [www.ifac.org](http://www.ifac.org)

## International Compilation and Review Standards (cont)

- ISRS 4410 and ISRE 2400 do not override SSARS.
- Interpretation No. 30 (AR 9100.130.135), Considerations Related to Financial Statements Prepared in Accordance with International Standards, however, allows an accountant who performs a compilation or review of historical financial statements of a U. S. Entity to follow the compilation and review standards of another set of compilation and review standards in addition to the required AR 100 Standards.

## FICPA Further Guidance

- The FICPA will be providing continuing professional education courses (seminars, Webcasts, and Webinars) to help practitioners and others understand the new compilation and review standard.
- Further, 2011 FICPA Conferences will include segments on the new standards.

## AICPA Accounting and Auditing Technical Hotline

- For additional information if needed, one may call the AICPA at”
  - Phone: (877) 242-7212
  - [techinquiry@aicpa.org](mailto:techinquiry@aicpa.org)
  - [aahotline@aicpa.org](mailto:aahotline@aicpa.org)

## **Issue Number 3.**

**Emphasis on Management  
Responsibilities**

**Establishing an  
Understanding**

## **Compilation of Financial Statements**

- **Issue date, unless otherwise indicated:**  
**December 2009**
- **Source: SSARS No. 19**
- **.01**
- This section establishes standards and provides guidance on compilations of financial statements. The accountant is required to comply with the provisions of this section whenever he or she is engaged to report on compiled financial statements or submits financial statements to a client or to third parties

## **Establishing an Understanding**

- **.02**
- The accountant should establish an understanding with management regarding the services to be performed for compilation engagements and should document the understanding through a written communication with management.

## **Establishing an Understanding (cont)**

- reduces the risks that either the accountant or management may misinterpret the needs or expectations of the other party.
- The accountant should ensure that the understanding includes the objectives of the engagement, management's responsibilities, the accountant's responsibilities, and the limitations of the engagement. In some cases, the accountant may establish such understanding with those charged with governance.

## **Establishing an Understanding (cont)**

- .03
- An understanding with management and, if applicable, those charged with governance, regarding a compilation of financial statements should include the following matters:

## **Establishing an Understanding (cont)**

- The objective of a compilation is to assist management in presenting financial information in the form of financial statements.
- The accountant utilizes information that is the representation of management (owners) without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

## **Establishing an Understanding (cont)**

- Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- Management is responsible to prevent and detect fraud.
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant.

## **Establishing an Understanding (cont)**

- The accountant is responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.

## **Establishing an Understanding (cont)**

- A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion or provide any assurance regarding the financial statements.
- **(Author's note: This paragraph is added to engagement letters)**

## **Establishing an Understanding (cont)**

- The engagement cannot be relied upon to disclose errors, fraud, or illegal acts.

## **Establishing an Understanding (cont)**

- The accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of compilation procedures that fraud or an illegal act may have occurred. The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.

## **Issue Number 4.**

### **New Engagement Letter For Compilations**

### **Establishing an Understanding (cont)**

- The effect of any independence impairments on the expected form of the accountant's compilation report, if applicable.
- These matters should be communicated in the form of an engagement letter. Examples of engagement letters for a compilation of financial statements are presented in Compilation Exhibit A, "Illustrative Engagement Letters" in SSARS 19, ***Compilation and Review Engagements***.

## **Establishing an Understanding (cont)**

- **.04**
- An understanding with management or, if applicable, those charged with governance, also may include other matters, such as the following:

## **Establishing an Understanding (cont)**

- Fees and billings
- Any limitation of or other arrangements regarding the liability of the accountant or the client, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements)
- Conditions under which access to compilation documentation may be granted to others
- Additional services to be provided relating to regulatory requirements

## **Establishing an Understanding (cont)**

- **.05**
- If the compiled financial statements are not expected to be used by a third party and the accountant does not expect to issue a compilation report on the financial statements, the accountant should include in the engagement letter an acknowledgment of management's representation and agreement that the financial statements are not to be used by a third party. The engagement letter also should address the following additional matters if applicable:

## **Establishing an Understanding (cont)**

- Material departures from the applicable financial reporting framework 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 the applicable financial reporting framework may be omitted.
- Reference to supplementary information.

## **Compilation Exhibit A— Illustrative Engagement Letters**

### **Illustrative Engagement Letters**

- .63
- Standard Engagement Letter for a Compilation
- [Appropriate Salutation]
- This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.
- We will perform the following services:

## **Illustrative Engagement Letters (cont)**

- We will compile, from information you provide, the annual [and interim, if applicable] financial statements of XYZ Company as of December 31, 20XX, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services (SSARSSs) issued by the American Institute of Certified Public Accountants (AICPA).

## **Illustrative Engagement Letters (cont)**

- The objective of a compilation is to assist you in presenting financial information in the form of financial statements. We will utilize information that is your representation without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].

## **Illustrative Engagement Letters (cont)**

- You are responsible for
- a. the preparation and fair presentation of the financial statements in accordance with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].

## **Illustrative Engagement Letters (cont)**

- b. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- c. preventing and detecting fraud
- d. identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- e. making all financial records and related information available to us.

## **Illustrative Engagement Letters (cont)**

- We are responsible for conducting the engagement in accordance with SSARSSs issued by the AICPA.

## **Illustrative Engagement Letters (cont)**

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

## Illustrative Engagement Letters (cont)

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

## Illustrative Engagement Letters (cont)

- ***If, during the period covered by the engagement letter, the accountant's independence is or will be impaired, insert the following:***
- We are not independent with respect to XYZ Company. We will disclose that we are not independent in our compilation report.

## **Illustrative Engagement Letters (cont)**

- If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.
- Our fees for these services...
- We will be pleased to discuss this letter with you at any time. If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

## **Illustrative Engagement Letters (cont)**

- Sincerely yours,
- \_\_\_\_\_
- [Signature of accountant]
- Acknowledged:
- XYZ Company
- \_\_\_\_\_
- President
- \_\_\_\_\_
- Date

## **Issue Number 5.**

### **New Compilation Documentation Requirements**

#### **Documentation in a Compilation Engagement**

- .14
- The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed. Documentation provides the principal support for the representation in the accountant's compilation report that the accountant performed the compilation in accordance with SSARSs.

## **Documentation...(cont)**

- The accountant is not precluded from supporting the compilation report by other means in addition to the compilation documentation. Such other means might include written documentation contained in other engagement files or quality control files (for example, consultation files) and, in limited situations, oral explanations.

## **Documentation...(cont)**

- .15
- The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant's professional judgment. The accountant's documentation should include the following:

## **Documentation...(cont)**

- a. The engagement letter documenting the understanding with the client
- b. Any findings or issues that, in the accountant's judgment, are significant (for example, the results of compilation procedures that indicate that the financial statements could be materially misstated, including actions taken to address such findings and, to the extent that the accountant had any questions or concerns as a result of his or her compilation procedures, how those issues were resolved)
- c. Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention

## **Issue Number 6.**

### **Other Compilation and Review Documentation**

## **Documentation...(cont)**

- Documentation should also include documentation which may not be a part of SSARS 19, but is nevertheless required documentation to include:

## **Documentation...(cont)**

- Quality Control Policies and Procedures
- Independence Representations for employees
- Documentation as part of Independence Interpretation 101-3 for non attest services
- Documentation as needed for peer review

## **Issue Number 7.**

### **New Compilation Reports**

## **Reporting on the Financial Statements**

- 
- **.16**
- 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 written report. The accountant's objective in reporting on the financial statements is to prevent misinterpretation of the degree of responsibility the accountant is assuming when his or her name is associated with the financial statements.

## **Reporting (cont)**

- .17
- The basic elements of the report are as follows:
  - a. Title. The accountant's compilation report should have a title that clearly indicates that it is the accountant's compilation report. The accountant may indicate that he or she is independent in the title, if applicable. Appropriate titles would be "Accountant's Compilation Report" or "Independent Accountant's Compilation Report."
  - b. Addressee. The accountant's report should be addressed as appropriate in the circumstances of the engagement.

## **Reporting (cont)**

- c. Introductory paragraph. The introductory paragraph in the accountant's report should:

## **Reporting (cont)**

- i. identify the entity whose financial statements have been compiled;
- ii. state that the financial statements have been compiled;
- iii. identify the financial statements that have been compiled;
- iv. specify the date or period covered by the financial statements; and
- v. include a statement that the accountant has not audited or reviewed the financial statements and, accordingly, does not express an opinion or provide any assurance about whether the financial statements are in accordance with the applicable financial reporting framework

## **Reporting (cont)**

- d. Management's responsibility for the financial statements and for internal control over financial reporting. A statement that management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

## **Reporting (cont)**

- e. Accountant's responsibility. A statement that the accountant's responsibility is to conduct the compilation in accordance with SSARSs issued by the AICPA.

A statement that the objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

## **Reporting (cont)**

- f. Signature of the accountant. The manual or printed signature of the accounting firm or the accountant, as appropriate.
- g. Date of the accountant's report. The date of the compilation report (the date of completion of the compilation should be used as the date of the accountant's report).

## **Reporting (cont)**

Procedures that the accountant might have performed as part of the compilation engagement should not be described in the report.

See Compilation Exhibit B, "Illustrative Compilation Reports," for illustrative compilation reports.

## **Reporting (cont)**

- .18
- Each page of the financial statements compiled by the accountant should include a reference, such as "See accountant's compilation report" or "See independent accountant's compilation report."

## **Reporting (cont)**

- .19
- Financial statements prepared in accordance with an OCBOA are not considered appropriate in form unless the financial statements include:
  - a. a description of the OCBOA, including a summary of significant accounting policies and a description of the primary differences from generally accepted accounting principles (GAAP). The effects of the differences need not be quantified.
  - b. informative disclosures similar to those required by GAAP if the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.

## **Comparison of Old to New Compilation Reporting Requirements**

**(Not applicable until periods ending  
after December 15, 2010)**

**Comparison of Old to New Reporting Requirements**  
**(Not applicable until periods ending after December 15, 2010)**

<u>ITEM</u>	<u>OLD</u>	<u>NEW</u>
Title	Not required	Accountant's Compilation Report
Addressee	Not required	(Appropriate Salutation)
Introductory Paragraph	I (we) have compiled the accompanying balance sheet of ABC Company as of December 31, xxxx, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.	I (we) have compiled the accompanying balance sheet of ABC Company as of December 31, xxxx, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

**Comparison of Old to New Reporting Requirements**  
**(Not applicable until periods ending after December 15, 2010)**  
**(cont)**

<u>ITEM</u>	<u>OLD</u>	<u>NEW</u>
Paragraph outlining management's responsibilities		Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements.
Paragraph outlining the accountant's responsibilities	None	My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

**Comparison of Old to New Reporting Requirements**  
**(Not applicable until periods ending after December 15, 2010)**  
 (cont)

<b>ITEM</b>	<b>OLD</b>	<b>NEW</b>
Conclusion paragraph	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.	The communication is moved to the introductory paragraph.
Paragraph disclosing independence impairment	I am (we are) not independent with respect to ABC Company. (The accountant is precluded from disclosing the reasons for the independence impairment.)	I am (we are) not independent with respect to ABC Company. (The accountant is <u>not</u> precluded from disclosing the reasons for the independence impairment.)

### **Reporting on Financial Statements That Omit Substantially All Disclosures**

- **.20**
- An entity may request the accountant to compile financial statements that omit substantially all the disclosures required by an applicable financial reporting framework, including disclosures that might appear in the body of the financial statements. The accountant may compile such financial statements, provided that the omission of substantially all disclosures is not, to his or her knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. elements:

## **Reporting on Financial Statements That Omit ...(cont)**

- When reporting on financial statements that omit substantially all disclosures, the accountant should include, after the paragraph describing the accountant's responsibility, a paragraph in the compilation report that includes the following:

## **Reporting on Financial Statements That Omit ...(cont)**

- a. A statement that management has elected to omit substantially all the disclosures (and the statement of cash flows, if applicable) required by the applicable financial reporting framework (or ordinarily included in the financial statements if the financial statements are prepared in accordance with an OCBOA)
- b. A statement that if the omitted disclosures (and statement of cash flows, if applicable) 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 (or equivalent for presentations other than accounting principles generally accepted in the United States of America)

## **Reporting on Financial Statements That Omit ...(cont)**

- c. A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters
- 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 [identify the applicable financial reporting framework (for example "Accepted Accounting Principles Generally Accepted in the United States of America")] Are Not Included."

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

- .22
- When the accountant submits compiled financial statements to his or her client that are not expected to be used by a third party, he or she is not required to issue a compilation report.
- .23
- 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."
- .24
- 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 determine the appropriate course of action, including considering requesting that the client have the statements returned. If the accountant requests that the financial statements be returned and the client does not comply with that request within a reasonable period of time, the accountant should notify known third parties that the financial statements are not intended for third party use, preferably in consultation with his or her attorney.

## **Emphasis of a Matter**

- .25
- The accountant may emphasize, in any report on financial statements, a matter disclosed in the financial statements. Such explanatory information should be presented in a separate paragraph of the accountant's report. Emphasis paragraphs are never required; they may be added solely at the accountant's discretion.

## **Emphasis of a Matter (cont)**

- Examples of matters that the accountant may wish to emphasize are
  - uncertainties.
  - that the entity is a component of a larger business enterprise.
  - that the entity has had significant transactions with related parties.
  - unusually important subsequent events.
  - accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

## **Emphasis of a Matter (cont)**

- **.26**
- Because an emphasis of matter paragraph should not be used in lieu of management disclosures, the accountant should not include an emphasis paragraph in a compilation report on financial statements that omit substantially all disclosures unless the matter is disclosed in the financial statements. The accountant should refer to paragraph .20 if he or she believes that a disclosure is necessary to keep the financial statements from being misleading.

## **Compilation Exhibit B— Illustrative Compilation Reports**

**Standard compilation report on financial  
statements prepared in accordance with  
accounting principles generally accepted  
in the United States of America**

## **Illustrative Compilation Reports**

- Accountant's Compilation Report
- [Appropriate Salutation]
- 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. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

## **Illustrative Compilation Reports**

- Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

## **Illustrative Compilation Reports**

- [Signature of accounting firm or accountant, as appropriate]
- [Date]

## **Illustrative Compilation Reports**

- Standard accountant's compilation report on financial statements prepared in accordance with ***the cash basis of accounting***

## **Illustrative Compilation Reports**

- Accountant's Compilation Report
- [Appropriate Salutation]
- I (we) have compiled the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 20XX, and the related statement of revenue collected and expenses paid for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis of accounting.

## **Illustrative Compilation Reports**

- Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.
- [Signature of accounting firm or accountant, as appropriate]
- [Date]

## Illustrative Compilation Reports

- *Paragraph the accountant may add after the conclusion paragraph when management has elected to omit substantially all disclosures, but the financial statements are otherwise in conformity with accounting principles generally accepted in the United States of America*
- Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

## Illustrative Compilation Reports

- *Paragraph the accountant may add after the conclusion paragraph when management has elected to omit substantially all disclosures, but the financial statements are otherwise in conformity with the income tax basis of accounting*
- Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared in accordance with the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

## **Issue Number 8.**

### **New Review Engagement Letter**

## **Review of Financial Statements (cont)**

- .02
- The accountant is precluded from performing a review engagement if the accountant's independence is impaired for any reason. In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA's Code of Professional Conduct.

## **Establishing an Understanding**

### **Establishing an Understanding**

- **.03**
- The accountant should establish an understanding with management regarding the services to be performed for review engagements and should document the understanding through a written communication with management.
- Such an understanding reduces the risk that either the accountant or management may misinterpret the needs or expectations of the other party. For example, it reduces the risk that management may inappropriately rely on the accountant to protect the entity against certain risks or to perform certain functions that are management's responsibility.

## **Establishing an Understanding (cont)**

- The accountant should ensure that the understanding includes the objectives of the engagement, management's responsibilities, the accountant's responsibilities, and the limitations of the engagement. In some cases, the accountant may establish such understanding with those charged with governance.

## **Establishing an Understanding (cont)**

- An understanding with management and, if applicable, those charged with governance regarding a review of financial statements should include the following matters:

## **Establishing an Understanding (cont)**

- The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework
- Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements

## **Establishing an Understanding (cont)**

- Management is responsible to prevent and detect fraud.
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant.

## **Establishing an Understanding (cont)**

- Management will provide the accountant, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.
- The accountant is responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.
- A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management.

## **Establishing an Understanding (cont)**

- A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion regarding the financial statements as a whole.

## **Establishing an Understanding (cont)**

- The engagement cannot be relied upon to disclose errors, fraud, or illegal acts
- The accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of review procedures that fraud or an illegal act may have occurred. The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated

## **Establishing an Understanding (cont)**

- **These matters should be communicated in the form of an engagement letter.** An example of an engagement letter for a review of financial statements is presented in Review Exhibit A, "Illustrative Engagement Letter."

## **Establishing an Understanding (cont)**

- **.05**
- An understanding with management or, if applicable, those charged with governance also may include other matters, such as the following:

## **Establishing an Understanding (cont)**

- Fees and billings
- Any limitation of or other arrangements regarding the liability of the accountant or the client, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements)
- Conditions under which access to review documentation may be granted to others
- Additional services to be provided relating to regulatory requirements

## **Establishing an Understanding (cont)**

- **.06**
- The engagement letter also should address the following additional matters if applicable:
  - Material departures from the applicable financial reporting framework may exist, and the effects of those departures, if any, on the financial statements may not be disclosed.
  - Reference to supplementary information.

**Review Exhibit A—  
Illustrative Engagement  
Letter**

## **Review Exhibit A—Illustrative Engagement Letter**

- .70
- [Appropriate Salutation]
- This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.
- We will perform the following services:

## **Review Exhibit A—Illustrative Engagement Letter (cont)**

- We will review the financial statements of XYZ Company as of December 31, 20XX, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services (SSARSs) issued by the American Institute of Certified Public Accountants (AICPA).
- The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].

## **Review Exhibit A—Illustrative Engagement Letter (cont)**

- You are responsible for
- a. the preparation and fair presentation of the financial statements in accordance with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].
- b. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- c. preventing and detecting fraud.
- d. identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- e. making all financial records and related information available to us.
- f. providing us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

## **Review Exhibit A—Illustrative Engagement Letter (cont)**

- We are responsible for conducting the engagement in accordance with SSARSSs issued by the AICPA.

## **Review Exhibit A—Illustrative Engagement Letter (cont)**

- A review includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion regarding the financial statements as a whole.

## **Review Exhibit A—Illustrative Engagement Letter (cont)**

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

## **Review Exhibit A—Illustrative Engagement Letter (cont)**

- If, for any reason, we are unable to complete the review of your financial statements, we will not issue a report on such statements as a result of this engagement.
- Our fees for these services...
- We will be pleased to discuss this letter with you at any time. If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

## **Review Exhibit A—Illustrative Engagement Letter (cont)**

- Sincerely yours,
- \_\_\_\_\_
- [Signature of accountant]
- Acknowledged:
- XYZ Company
- \_\_\_\_\_
- President
- \_\_\_\_\_
- Date

## **Issue Number 9.**

### **Documentation in a Review Engagement**

#### **Documentation in a Review Engagement**

- .25
- The accountant should prepare documentation in connection with each review engagement in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of review procedures performed); the review evidence obtained and its source; and the conclusions reached. Documentation does the following:

## **Documentation in a Review Engagement**

- a. Provides the principal support for the representation in the accountant's review report that the accountant performed the review in accordance with SSARSs
- b. Provides the principal support for the conclusion that the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework

## **Documentation in a Review Engagement (cont)**

- .26
- The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant's professional judgment. The accountant's documentation should include the following:
  - The engagement letter documenting the understanding with the client.
  - The analytical procedures performed, including the following:

## **Documentation in a Review Engagement (cont)**

- The expectations, when the expectations are not otherwise readily determinable from the documentation of the work performed, and the factors considered in the development of the expectations
- Results of the comparison of the expectations to the recorded amounts or ratios developed from recorded amounts
- Management's responses to the accountant's inquiries regarding fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount

## **Documentation in a Review Engagement (cont)**

- Any additional review procedures performed in response to significant unexpected differences arising from analytical procedures and the results of such additional procedures.
- The significant matters covered in the accountant's inquiry procedures and the responses thereto. The accountant may document the matters covered by the accountant's inquiry procedures and the responses thereto through a memorandum, checklist, or other means.
- Any findings or issues that, in the accountant's judgment, are significant (for example, the results of review procedures that indicate the financial statements could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached).

## **Documentation in a Review Engagement (cont)**

- Significant unusual matters that the accountant considered during the performance of the review procedures, including their disposition.
- Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention.
- The representation letter.

## **Documentation in a Review Engagement (cont)**

- The accountant is not precluded from supporting the review report by other means in addition to the review documentation. Such other means might include written documentation contained in other engagement files (for example, compilation or nonattest services) or quality control files (for example, consultation files) and, in limited situations, oral explanations. Oral explanations on their own do not represent sufficient support for the work the accountant performed or conclusions the accountant reached but may be used by the accountant to clarify or explain information contained in the documentation.

## **Documentation in a Review Engagement (cont)**

- Documentation should also include documentation which may not be a part of SSARS 19, but is nevertheless required documentation to include:
  - Quality Control Policies and Procedures
  - Independence Representations for employees
  - Documentation as part of Independence Interpretation 101-3 for non attest services
  - Documentation for peer review

**Issue Number 10.**

**New Review Report**

## **Reporting on the Financial Statements**

- **.27**
- Financial statements reviewed by an accountant should be accompanied by a written report. The accountant's objective in reporting on the financial statements is to prevent misinterpretation of the degree of responsibility the accountant is assuming when his or her name is associated with the financial statements.
- **.28**
- The basic elements of the report are as follows:
- a. Title. The accountant's review report should have a title that clearly indicates that it is the accountant's review report and includes the word independent. An appropriate title would be "Independent Accountant's Review Report."

## **Reporting on the Financial Statements (cont)**

- b. Addressee. The accountant's report should be addressed as required by the circumstances of the engagement.
- c. Introductory paragraph. The introductory paragraph in the accountant's report should
  - i. identify the entity whose financial statements have been reviewed;
  - ii. state that the financial statements have been reviewed;
  - iii. identify the financial statements; that have been reviewed;

## **Reporting on the Financial Statements (cont)**

- iv. specify the date or period covered by the financial statements;
- v. include a statement that a review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners); and
- vi. include a statement that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole, and that, accordingly, the accountant does not express such an opinion.

## **Reporting on the Financial Statements (cont)**

- d. Management's responsibility for the financial statements. A statement that management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

## **Reporting on the Financial Statements (cont)**

- e. Accountant's responsibility. A statement that the accountant's responsibility is to conduct the review in accordance with SSARSs issued by the AICPA.

A statement that those standards require the accountant to perform the procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements.

A statement that the accountant believes that the results of his or her procedures provide a reasonable basis for his or her report.

## **Reporting on the Financial Statements (cont)**

- f. Results of engagement. A statement that, based on his or her review, the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework, other than those modifications, if any, indicated in the report.
- g. Signature of the accountant. The manual or printed signature of the accounting firm or the accountant as appropriate.

## **Reporting on the Financial Statements (cont)**

- h. Date of the accountant's report. The date of the review report (the accountant's review report should not be dated earlier than the date on which the accountant has accumulated review evidence sufficient to provide a reasonable basis for concluding that the accountant has obtained 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 the applicable financial reporting framework).
- See Review Exhibit D, "Illustrative Review Reports," for examples of review reports.

## **Reporting on the Financial Statements (cont)**

- .29
- Each page of the financial statements reviewed by the accountant should include a reference, such as "See Independent Accountant's Review Report."
- .30
- When the accountant is unable to perform the inquiry and analytical procedures he or she considers necessary to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework, or the client does not provide the accountant with a representation letter, the review will be incomplete. A review that is incomplete does not provide an adequate basis for issuing a review report. In such a situation, the accountant should consider the matters discussed in paragraphs .56–.61 of section 80 in deciding whether it is appropriate to issue a compilation report on the financial statements.

## **Reporting on the Financial Statements (cont)**

- **.31**
- The 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. The accountant may do so if the scope of his or her inquiry and analytical procedures has not been restricted.

## **Reporting on the Financial Statements (cont)**

- **.32**
- Financial statements prepared in accordance with an OCBOA are not considered appropriate in form unless the financial statements include
  - a description of the OCBOA, including a summary of significant accounting policies and a description of the primary differences from GAAP. The effects of the differences need not be quantified.
  - informative disclosures similar to those required by GAAP if the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.

# **Comparison of Review Reporting**

**Old vs. New**

## **Comparison of Old Review Reporting Requirements and New Requirements**

(Not effective until periods ending after December 15, 2010)

<u>ITEM</u>	<u>OLD</u>	<u>NEW</u>
Title	Not required	Independents Accountant's Review Report
Addressee	Not required	(Appropriate Salutation)
Introductory paragraph In the new report, the scope of the engagement is described (it was included in the second paragraph previously), Management's responsibilities are moved to a separate paragraph.	I (we) have reviewed the accompanying balance sheet of ABC Company as of December 31, xxxx, 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 management (owners) of ABC Company.	I (we) have reviewed the accompanying balance sheet of ABC Company as of December 31, xxxx, and the related statements of income, retained earnings, and cash flow for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

**Comparison of Old Review Reporting Requirements and New Requirements**  
 (Not effective until periods ending after December 15, 2010)

(CONT)

<u>ITEM</u>	<u>OLD</u>	<u>NEW</u>
Second paragraph  The new report describes management's responsibilities. The scope of the engagement is included in the introductory paragraph.	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.	Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

**Comparison of Old Review Reporting Requirements and New Requirements**  
 (Not effective until periods ending after December 15, 2010)

(CONT)

<u>ITEM</u>	<u>OLD</u>	<u>NEW</u>
Paragraph describing the accountant's responsibilities		My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (we) believe that the results of my (our) procedures provide a reasonable basis for our report.

**Comparison of Old Review Reporting Requirements and New Requirements**  
 (Not effective until periods ending after December 15, 2010)  
 (CONT)

<u>ITEM</u>	<u>OLD</u>	<u>NEW</u>
Paragraph describing the results of the engagement	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.	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.

## **Emphasis of a Matter**

- .33
- The accountant may emphasize, in any report on financial statements, a matter disclosed in the financial statements. Such explanatory information should be presented in a separate paragraph of the accountant's report. Emphasis paragraphs are never required; they may be added solely at the accountant's discretion.

## **Emphasis of a Matter (cont)**

- Examples of matters that the accountant may wish to emphasize are
  - uncertainties.
  - that the entity is a component of a larger business enterprise.
  - that the entity has had significant transactions with related parties.
  - unusually important subsequent events.
  - accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

## **Review Exhibit D—Illustrative Review Reports**

## **Review Exhibit D—Illustrative Review Reports**

- .73
- Standard accountant's review report on financial statements prepared in accordance with accounting principles generally accepted in the United States of America

## **Review Exhibit D—Illustrative Review Reports (cont)**

- Independent Accountant's Review Report
- [Appropriate Salutation]
- I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

## **Review Exhibit D—Illustrative Review Reports (cont)**

- Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

## **Review Exhibit D—Illustrative Review Reports (cont)**

- My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provide a reasonable basis for our report.

## **Review Exhibit D—Illustrative Review Reports (cont)**

- 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.

## **Review Exhibit D—Illustrative Review Reports (cont)**

- [Signature of accounting firm or accountant, as appropriate]
- [Date]

## **Review Exhibit D—Illustrative Review Reports (cont)**

- Standard accountant's review report on financial statements prepared in accordance with the income tax basis of accounting

## **Review Exhibit D—Illustrative Review Reports (cont)**

- Independent Accountant's Review Report
- [Appropriate Salutation]
- I (We) have reviewed the accompanying statement of assets, liabilities, and equity —income tax basis of XYZ Company as of December 31, 20XX, and the related statement of revenue and expenses—income tax basis for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.
- Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis for accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

## **Review Exhibit D—Illustrative Review Reports (cont)**

- My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provides a reasonable basis for our report.
- Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in note X.

Thank you for your attention...