

- COMPARISON OF AICPA EXPOSURE DRAFTS TO
PROPOSED APES 315 EXPOSURE DRAFT -

EXPOSURE DRAFT

PROPOSED STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

PREPARATION OF FINANCIAL STATEMENTS

COMPILATION ENGAGEMENTS

ASSOCIATION WITH FINANCIAL STATEMENTS

(To supersede paragraphs .05–.06 of AR section 60, Framework for Performing and Reporting on Compilation and Review Engagements; AR section 80, Compilation of Financial Statements; AR section 110, Compilation of Specified Elements, Accounts, or Items of a Financial Statement; AR section 300, Compilation Reports on Financial Statements Included in Certain Prescribed Forms; and AR section 600, Reporting on Personal Financial Statements Included in Written Personal Financial Plans [AICPA, Professional Standards].)

October 23, 2013

Comments are requested by May 2, 2014

Prepared by the AICPA Accounting and Review Services Committee for comment from persons interested in compilation and reporting issues.

Comments should be addressed to Mike Glynn at mglynn@aicpa.org.



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CONTENTS

	Page
Explanatory Memorandum	
Introduction	4
Background	4
Effective Date	5
Changes From Existing Standards	5
Guide for Respondents.....	10
Comment Period	10
Accounting and Review Services Committee and ARSC Clarity Task Force	
Members	11
Exposure Drafts	
Proposed Statement on Standards for Accounting and Review Services <i>Preparation of</i> <i>Financial Statements</i>	12
Proposed Statement on Standards for Accounting and Review Services <i>Compilation</i> <i>Engagements</i>	23
Proposed Statement on Standards for Accounting and Review Services <i>Association With</i> <i>Financial Statements</i>	52

EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background on the proposed Statements on Standards for Accounting and Review Services (SSARSS) *Preparation of Financial Statements*; *Compilation Engagements*; and *Association With Financial Statements*.

The proposed SSARS *Compilation Engagements* would supersede the following sections in *Professional Standards*:

- paragraphs .05–.06 of AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements*
- AR section 80, *Compilation of Financial Statements*
- AR section 110, *Compilation of Specified Elements, Accounts, or Items of a Financial Statement*
- AR section 300, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*
- AR section 600, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*

The accompanying proposed standards apply the Accounting and Review Services Committee's (ARSC's) clarity drafting conventions. However, the proposed standards should not be considered simply a clarity redraft of the extant SSARSS because they represent a significant revision in requirements when an accountant is engaged to prepare financial statements, as well as a repositioning of the compilation service that differs from extant standards in several important aspects. The expected significant effects on practice with respect to these proposed revisions are discussed within this document.

The proposed SSARSS would result in the following sections in the codified SSARSS:

- AR section 50, *Association With Financial Statements*
- AR section 70, *Preparation of Financial Statements*
- AR section 80, *Compilation Engagements*

Background

Clarity

ARSC has concluded that it would be in the public interest to have all the professional literature for engagements performed in accordance with Statements on Auditing Standards and SSARSS drafted using the same conventions and, therefore, has substantially utilized the clarity drafting conventions used by the Auditing Standards Board (ASB) in its clarity project. The resulting clarified SSARSS will be easier to read, understand, and apply.

The proposed SSARSS have been drafted in accordance with ARSC's clarity drafting conventions, which include the following:

- Establishing objectives for each clarified AR section
- Including a “Definitions” section, when relevant, in each clarified AR section
- Separating requirements from application and other explanatory material
- Numbering application and other explanatory material paragraphs using an A- prefix and presenting them in a separate section that follows the “Requirements” section
- Using formatting techniques, such as bullet lists, to enhance readability

Convergence

Although ARSC has considered International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*, and has adopted certain of the requirements, the proposed SSARS *Compilation Engagements* has not been fully harmonized with ISRS 4410 because some of the underlying premises (for example, the requirement to determine independence) are different in the United States of America.

Effective Date

The proposed SSARS *Preparation of Financial Statements* would be effective for the preparation of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

The proposed SSARS *Compilation Engagements* would be effective for compilation reports on financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

The proposed SSARS *Association With Financial Statements* would be effective for financial statements with which the accountant is associated on or after December 15, 2015. Early implementation is permitted.

Changes From Existing Standards

The following represents what ARSC believes would be the most significant changes to extant SSARSs if the proposed SSARSs are issued as final standards.

Three New SSARSs

ARSC proposes to issue three new SSARSs as follows:

- The proposed SSARS *Preparation of Financial Statements* would provide requirements and guidance when an accountant is engaged to prepare financial statements for an entity but has not been engaged to perform a compilation, review, or audit with respect to those financial statements.

- The proposed SSARS *Compilation Engagements* would provide requirements and guidance that would apply only when an accountant is engaged to perform a compilation of historical financial statements.
- The proposed SSARS *Association With Financial Statements* would provide requirements and guidance when an accountant agrees to permit the use of the accountant's name in a report, document, or written communication that includes financial statements with respect to which the accountant did not issue a compilation, review, or audit report.

The following table compares and contrasts attributes of the proposed SSARSs *Preparation of Financial Statements* and *Compilation of Financial Statements*:

	Compilation	Preparation
When does the standard apply?	When an accountant is engaged to perform a compilation	When an accountant is engaged to prepare financial statements
Is an engagement letter required?	Yes	Yes
Is the accountant required to determine if he or she is independent of the client?	Yes	No
If the accountant is not independent, is that fact required to be disclosed?	Yes	N/A
Does the engagement require a report?	Yes	No ¹
May the financial statements go to users outside of management?	Yes	Yes
May the financial statements omit notes?	Yes	Yes

¹ When an accountant is engaged to prepare financial statements, the accountant is required to include an adequate statement on each page of the financial statements indicating that no CPA provides any assurance on the financial statements. If the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer on the financial statements.

Submission of Financial Statements

In accordance with the extant SSARSs, an accountant is required to comply with the provisions of AR section 80, *Compilation of Financial Statements*, whenever the accountant is engaged to report on compiled financial statements or *submits* (defined in paragraph .04 of AR section 60 as "presenting to management financial statements that the accountant has prepared") financial statements to a client or third parties.

The applicability of the compilation standards when the accountant submitted financial statements worked satisfactorily when SSARS No. 1, *Compilation and Review of Financial Statements*, was issued in December 1978, and for many years thereafter, because it was fairly easy to determine whether the accountant had prepared financial statements. However, in the current practice environment, including cloud computing and other applications, it has become increasingly difficult to determine whether the accountant, management, or both prepared the financial statements. This difficulty has created inconsistency in practice, which is not in the

public interest. In order to address this issue, ARSC has determined to revise the applicability of the compilation standards, so the standards apply only when the accountant is engaged to perform a compilation engagement.

Additionally, the AICPA Professional Ethics Executive Committee has revised Interpretation No. 101-3, "Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05). Among the revisions is a clarification that financial statement preparation is considered outside the scope of the attest engagement and, therefore, constitutes a nonattest service. ARSC is supportive of this clarification because it is in harmony with how the 2011 edition of *Government Auditing Standards* (the Yellow Book) treats the preparation of financial statements. The clarification is also consistent with the views of practitioners who believe that the preparation of financial statements is a responsibility of management and an essential part of an entity's system of internal control. The clarification is effective for engagements covering periods beginning on or after December 15, 2014.

ARSC is aware that many entities will determine that they would like to engage the accountant to perform the preparation service as they would any other accounting service or bookkeeping engagement. ARSC believes that it is not appropriate to require the accountant to perform, or the entity to accept, a compilation service when the desired service is a preparation service. Given this, ARSC is also aware that many state laws and regulations, loan documents, and other contracts and agreements require a compilation engagement. To address this issue, ARSC is proposing that when the accountant is engaged to perform the preparation service, the accountant would follow the requirements and guidance in the proposed SSARS *Preparation of Financial Statements*. When the accountant is *engaged* to perform the compilation service, the accountant would follow the requirements and guidance in the proposed SSARS *Compilation Engagements*.

The result is that the accountant need not be concerned with issues such as who prepared the financial statements because the standards would only apply when the accountant is *engaged* to perform either the preparation or the compilation service. The accountant also would not need to be concerned with whether the financial statements are intended to be used by third parties because the accountant would issue a compilation report only when engaged to do so.

Specific requests of respondents

1. ARSC asks for specific feedback about whether respondents are supportive of the revised applicability for the compilation engagement so that the standard applies only when the accountant is engaged to perform a compilation engagement.
2. ARSC asks for specific feedback about whether respondents are supportive of the issuance of standards and guidance for an engagement to prepare financial statements.

Requirement to Obtain a Signed Engagement Letter or Other Suitable Form of Written Agreement

Although extant AR section 80 requires that the accountant document the understanding with management regarding the services to be performed for compilation engagements through a written agreement with management, extant AR section 80 does not require that the written understanding be signed by either the accountant or management.

Paragraph 9 of the proposed SSARS *Preparation of Financial Statements* and paragraph 7 of the proposed SSARS *Compilation Engagements* require that the engagement letter or other suitable form of written agreement be signed by (a) the accountant or the accountant's firm and (b) management.

Specific request of respondents

3. ARSC asks for specific feedback about whether respondents are supportive of the requirement that the engagement letter or other suitable form of written agreement be signed by (a) the accountant or the accountant's firm and (b) management.

Proposed SSARS, *Preparation of Financial Statements*

Statement or Legend on Each Page of Financial Statements That the Accountant Has Prepared

The proposed SSARS would not require a report when an accountant is engaged to prepare financial statements—even if the financial statements are expected to be used by, or provided to, a third party. In order to be transparent to users of financial statements that no accountant has issued an audit or review report on the financial statements, ARSC proposes that each page of the financial statements include a statement or legend stating that no CPA provides any assurance on the financial statements.

The appropriate statement or legend communicates substantially the same lack of assurance as a compilation report in accordance with extant AR section 80. Examples of an adequate statement or legend on each page of the financial statements include the following:

- No CPA provides any assurance on these financial statements.
- These financial statements have not been audited or reviewed, and no CPA provides any assurance on them.

In a rare situation in which the accountant is not able to include an appropriate statement or legend on each page of the financial statements, the accountant would be required to issue a disclaimer report.

The accountant's name is not required to be included in the financial statements that the accountant has prepared or any document that contains the financial statements.

Specific request of respondents

4. ARSC asks for specific feedback about whether respondents are supportive of the proposed requirement that each page of the financial statements that the accountant has prepared include a statement or legend stating that no CPA provides any assurance on the financial statements or else the accountant would be required to issue a disclaimer.

Proposed SSARS, *Compilation Engagements*

Accountant's Compilation Reports

Because ARSC is proposing that the proposed SSARS would be applicable when the accountant is engaged to perform a compilation engagement, a report would always be required. Because a report would be required, a significant change in the proposed compilation standard would be that any differentiation between financial statements for general use and financial statements that are not expected to be used by a third party (commonly referred to as *management use only financial statements* or *SSARS 8 financial statements*) has been eliminated.

ARSC proposes that the compilation report be reconfigured to look significantly different from an audit or review report. ARSC believes that if the report looks significantly different, it would help users understand that the accountant has not obtained any assurance and does not express an opinion, conclusion, nor provide any assurance on the financial statements.

The proposed accountant's compilation report would retain the requirement from extant paragraph .21 of AR section 80 that the accountant modify the compilation report when the accountant's independence is impaired. The accountant would not be required to disclose the reasons the accountant's independence is impaired. However, if the accountant elects to disclose a description about the reasons the accountant's independence is impaired, the accountant would be required to ensure that all reasons are included in the description.

Specific request of respondents

5. ARSC asks for specific feedback about whether respondents are supportive of the proposed compilation reporting requirements.

Proposed SSARS, Association With Financial Statements

The proposed SSARS moves the requirements and guidance of AU section 504, *Association With Financial Statements* (AICPA, *Professional Standards*), to the SSARSs literature. ARSC and the ASB believe that the requirements and guidance should reside in the SSARSs because the standard relates to unaudited financial statements.

The proposed SSARS addresses the circumstance in which the accountant permits the use of the accountant's name in a report, document, or written communication that contains financial statements on which the accountant has not issued a compilation, review, or audit report. In those cases, the accountant would be required to read the financial statements in the report, document, or written communication containing the financial statements in order to identify obvious material misstatements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management.

The proposed SSARS would apply regardless of whether the accountant prepared the financial statements.

Specific request of respondents

6. ARSC asks for specific feedback about whether respondents are supportive of the proposed standard that would provide requirements and guidance when an accountant permits the use of

the accountant's name in a report, document, or written communication containing financial statements on which the accountant did not issue a compilation, review, or audit report.

Effective Date

The proposed SSARSs would be effective as follows:

- The proposed SSARS *Preparation of Financial Statements* would be effective for the preparation of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.
- The proposed SSARS *Compilation Engagements* would be effective for compilation reports on financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.
- The proposed SSARS *Association With Financial Statements* would be effective for financial statements with which the accountant is associated on or after December 15, 2015. Early implementation is permitted.

Specific request of respondents

7. ARSC asks for specific feedback about whether respondents are supportive of the proposed effective dates, specifically the permitting of early implementation.

Guide for Respondents

ARSC is seeking comments on the seven specific requests (1–7) posed in the “Changes From Existing Standards” section of this document. Please clearly indicate in your comment letter the request to which you are responding.

Additionally, ARSC requests comments on specific paragraphs in the proposed SSARSs. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific recommendations for any suggested changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for ARSC to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after May 2, 2014, for a period of one year. Responses should be sent to Mike Glynn at mglynn@aicpa.org and received by May 2, 2014.

Comment Period

The comment period for this exposure draft ends on May 2, 2014.

Accounting and Review Services Committee (ARSC)
(2012–2013)

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

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

ARSC Clarity Task Force
(2012–2013)

Charles J. McElroy, *Chair*

Michael L. Brand

AICPA Staff

Charles E. Landes
Vice President
Professional Standards

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

Richard I. Miller
Special Counsel

Proposed Statement on Standards for Accounting and Review Services *Preparation of Financial Statements*

Introduction

Scope

- 1.2
1.3
1.4
1.9
1. This proposed Statement on Standards for Accounting and Review Services (SSARS) would apply when an accountant in public practice is engaged by management to prepare financial statements. (Ref: par. A1)

This proposed SSARS may also be applied, adapted as necessary in the circumstances, to other historical or prospective financial information.¹ (Ref: par. A2)

2. This proposed SSARS does not apply to

- the preparation of financial statements when the accountant is engaged to perform an audit, review, or compilation with respect to those financial statements.
- the preparation of tax returns or other data prepared solely for submission to taxing authorities.
- personal financial statements that are prepared for inclusion in written personal financial plans prepared by the accountant.
- financial statements prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings. (Ref: par. A3)

The Preparation Engagement

- n/a
8.2
3. The preparation of financial statements is a nonattest service and does not require the accountant to determine whether the accountant is independent of the entity. (Ref: par. A4)
 4. In addition, in the preparation of financial statements, the accountant is not required to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements or otherwise report on the financial statements.

Effective Date

- 1.1
5. This proposed SSARS is effective for the preparation of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

Objective

¹ The Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants engaged to perform a compilation engagement with respect to pro forma or prospective financial information.

6. The accountant's objective is to prepare financial statements pursuant to the financial reporting framework adopted by management. n/a

Definitions

7. For purposes of SSARs, the following terms have the meanings attributed as follows:

Financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements (for example, U.S. GAAP, International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework). n/a

Management. The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance (for example, executive members of a governance board or an owner-manager). Also see **those charged with governance**. 2. Client

Special purpose framework. A financial reporting framework other than generally accepted accounting principles (GAAP) that is one of the following bases of accounting: Alternative Financial Reporting Framework

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

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

Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of an entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may Those charged with Governance

include management personnel (for example, executive members of a governance board or an owner-manager). Also see **management**.

Requirements

Engagement Acceptance

7.1

8. The accountant should not accept an engagement to prepare financial statements unless the accountant has agreed to the terms of the engagement with management and recorded those terms in an engagement letter or other suitable form of written agreement. The engagement letter or other suitable form of written agreement should include the following: (Ref: par. A5–A6 and A11)

7.2

- a. Identification of the financial reporting framework adopted by management, including whether the financial statements will omit substantially all disclosures required by the applicable financial reporting framework (Ref: par. A7)
 - b. The objective, scope, and limitations of the engagement
 - c. The responsibilities of the accountant, including the requirement to perform the engagement in accordance with SSARSS and comply with relevant ethical requirements

Section

II

- d. The responsibilities of management for (Ref: par. A8–A9)
 - i. preventing and detecting fraud
 - ii. ensuring that the entity complies with laws and regulations applicable to its activities
 - iii. the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the preparation of financial statements
 - iv. providing the accountant with
 - (1) access to all information of which management is aware that is relevant to the preparation and presentation of the financial statements, such as records, documentation, and other matters
 - (2) additional information that the accountant may request from management for the purpose of the preparation of financial statements
 - (3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries

- e. The understanding that an adequate statement will be included on each page of the financial statements indicating that no CPA provides any assurance on the financial statements (Ref: par. A17–A18)

7.2

9. The engagement letter or other suitable form of written agreement should be signed by
 - a. the accountant or the accountant's firm and
 - b. management. (Ref: par. A10)

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework

10. The accountant should obtain an understanding of the financial reporting framework adopted by management intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management. (Ref: par. A12)

8.1

Preparing the Financial Statements

11. The accountant should prepare the financial statements using the records, documents, explanations, and other information provided by management.

8.2

12. The accountant should include an adequate statement on each page of the financial statements indicating that no CPA provides any assurance on the financial statements. If the accountant is unable to include an adequate statement on each page of the financial statements, the accountant should issue a disclaimer on the financial statements (Ref: par. A13–A14)

12.6(i)
12.7
12.8

13. When preparing financial statements in accordance with a special purpose framework, the accountant should include a description of the financial reporting framework on the face of the financial statements or in a note to the financial statements. (Ref: par. A15)

6.8

14. If, during the preparation of financial statements, the accountant assists management with significant judgments regarding amounts or disclosures to be reflected in the financial statements, the accountant should discuss those judgments with management so management understands the significant judgments reflected in financial statements and accepts responsibility for those judgments. (Ref: par. A16)

6.7

15. If the accountant becomes aware that the records, documents, explanations, or other information, including significant judgments, used in the preparation of the financial statement are incomplete, inaccurate, or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information.

8.3
9.2

16. The accountant should withdraw from the engagement and inform management of the reasons for withdrawing if the accountant is unable to complete the engagement because management has failed to provide corrected records, documents, explanations, or other information, including significant judgments, as requested. (Ref: par. A17–A18)

8.4
9.3

Financial Statements That Omit Substantially All the Disclosures Required by the Financial Reporting Framework Adopted by Management

17. The accountant should not prepare financial statements that omit substantially all disclosures required by the financial reporting framework adopted by management unless the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. (Ref: par. A19)

n/a

Documentation in a Preparation Engagement

- 10.1
10.2
18. The accountant should prepare documentation in connection with each preparation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following:
- a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs 8–9
 - b. A copy of the financial statements that the accountant prepared
- 10.1
19. If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.

Application and Other Explanatory Material

Scope (Ref: par. 1–2 and 8)

- n/a
- A1. The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this proposed SSARS) requires the accountant to apply professional judgment. Examples of accounting services to assist management in the preparation of financial statements include engagements to
- maintain depreciation schedules or prepare bank reconciliations.
 - prepare or propose certain adjustments, such as those applicable to deferred income taxes, depreciation, or leases.
 - draft financial statement notes.
- 1.9
- A2. Although this proposed SSARS does not apply to other historical or prospective financial statements, this proposed SSARS may be applied, adapted as necessary in the circumstances, to certain financial information or presentations, such as the following:
- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
 - Supplementary information
 - Required supplementary information
 - Pro forma financial information
 - Prospective financial information, including budgets, forecasts, or projections
- n/a
- A3. Financial statements are prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings when the

- 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 analysis and challenge.
- 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.

The Preparation Engagement (Ref: par. 3)

- A4. Interpretation No. 101-3, “Nonattest Services,” of Rule 101, *Independence* (AICPA, *Professional Standards*), addresses the accountant’s considerations with respect to independence when performing nonattest services for attest clients. For example, the accountant may prepare monthly or other interim financial statements and be engaged to perform an audit, review, or compilation engagement with respect to the annual financial statements. The accountant needs to be aware that the performance of the preparation services may impair independence unless the safeguards described in Interpretation No. 101-3 are met.

n/a

Engagement Acceptance (Ref: par. 8–9)

- A5. The understanding with management regarding the services to be performed for engagements to prepare financial statements is required by paragraph 8 to be recorded in an engagement letter or other suitable form of written agreement and, accordingly, a verbal understanding is insufficient. An engagement letter is the most common, and usually the most convenient, method for documenting the understanding with management regarding the services to be performed for engagements to prepare financial statements. A formal contract is another suitable form of written agreement.
- A6. Both management and the accountant have an interest in documenting the agreed-upon terms of the engagement to prepare financial statements before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or may expect the accountant to protect management against certain risks or to perform certain functions, including those that are management’s responsibility.
- A7. Management’s decision about the financial reporting framework that it adopts for the financial statements is made in the context of the intended use of the financial statements and the requirements of any applicable law or regulation.
- A8. In accordance with this proposed SSARS, the accountant is required to obtain the agreement of management on management’s responsibilities in relation to the financial statements as a condition precedent to accepting the engagement. In smaller entities, management may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management’s agreement on an informed basis, the accountant may find it necessary to discuss those

7.1

7.1

7.2 (j)

Section
11

responsibilities with management in advance of seeking management's agreement on its responsibilities.

Section
II

A9. The accountant is entitled to rely on management to provide all relevant information for the engagement. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations, and other information relevant to the preparation of the financial statements in accordance with the financial reporting framework adopted by management. The information provided may include, for example, information about management's assumptions, intentions, or plans underlying development of accounting estimates needed to prepare the financial statements in accordance with the applicable financial reporting framework.

A10. In some entities, other parties, such as those charged with governance, may be the appropriate or authorized parties to sign the engagement letter or other suitable form of written agreement.

n/a

A11. An illustrative example of an engagement letter for an engagement to prepare financial statements is presented in exhibit A, "Illustrative Engagement Letter."

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework (Ref: par. 10)

8.1

A12. The requirement that the accountant obtain an understanding of the financial reporting framework adopted by management intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management does not prevent the accountant from accepting an engagement to prepare financial statements for an entity in an industry in which the accountant has no previous experience. The accountant may obtain such understanding, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals who are knowledgeable about the industry.

Preparing the Financial Statements (Ref: par. 8, 12-14, and 16)

12.7

12.8

A13. The adequate statement on each page of the financial statements, including related notes, is intended to avoid misunderstanding on the part of users with respect to the accountant's involvement with the financial statements. The statement is made at management's discretion, and the accountant or the accountant's firm name is not required to be included. The accountant is concerned that the indication is not misleading. Examples of an adequate statement on each page of the financial statements include the following:

- No CPA provides any assurance on these financial statements.
- These financial statements have not been audited or reviewed, and no CPA expresses an opinion or a conclusion nor provides any assurance on them.

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

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

12.6(i)

12.7

12.8

- A15. A description of the special purpose framework is usually placed next to or under the title of the financial statements (for example "statement of assets and liabilities—modified cash basis"). However, the description may be placed elsewhere in the financial statements.

6.8

- A16. In the preparation of financial statements, the accountant may provide assistance to management with significant judgments (for example, the accountant may advise management on alternative accounting policies that are significant to the financial statements or help management with significant judgments regarding material accounting estimates).

6.7

- A17. In circumstances addressed by the requirements of this proposed SSARS in which withdrawal from the engagement is necessary, the responsibility to inform management and those charged with governance of the reasons for withdrawing provides an opportunity to explain the accountant's ethical obligations.

8.4

9.3

- A18. When making a determination about whether and how to withdraw from an engagement, the accountant may wish to consult with legal counsel.

↓

Financial Statements That Omit Substantially All the Disclosures Required by the Financial Reporting Framework Adopted by Management (Ref: par. 17)

- A19. When management elects to include disclosures about only a few matters in the notes to the financial statements, such disclosures may be labeled "Selected Information—Substantially All Disclosures Required by [*the applicable financial reporting framework*] Are Not Included."

n/a

N/A

A20.

Exhibit A—Illustrative Engagement Letter (Ref: par. A11)

The following is an example of an engagement letter for an engagement to prepare financial statements prepared in accordance with accounting principles generally accepted in the United States of America. This engagement letter is not authoritative but is intended as an illustration that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances and is drafted to refer to the preparation of financial statements for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

To the appropriate representative of management of ABC Company:¹

You² have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, and changes in stockholders' equity, and cash flows for the year then ended and the related notes to the financial statements.^{3,4} We are pleased to confirm our acceptance and our understanding of this engagement to prepare the financial statements of ABC Company by means of this letter.

Our Responsibilities

The objective of our engagement is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you. We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion or provide any assurance on the financial statements.

¹ The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the engagement to prepare financial statements, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A10.

² Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

³ If the accountant is to be engaged to prepare financial statements that omit the statement of cash flows and the related notes, the sentence may be revised to read "You have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity." The following additional sentence may then be added: "These financial statements will not include a statement of cash flows and related notes to the financial statements."

⁴ The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping services.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking, in accordance with SSARSs, the engagement to prepare your financial statements:

- a. The prevention and detection of fraud
- b. To ensure that the entity complies with the laws and regulations applicable to its activities
- c. To make all financial records and related information available to us
- d. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement to prepare financial statements

You agree that the financial statements will clearly indicate that no CPA provides any assurance on them.

Other relevant information

Our fees for these services

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, 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):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein, and our respective responsibilities.

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and title]

[Date]

Proposed Statement on Standards for Accounting and Review Services *Compilation Engagements*

Introduction

Scope

1. This proposed Statement on Standards for Accounting and Review Services (SSARS) applies when the accountant is engaged to perform a compilation engagement. This proposed SSARS may also be applied, adapted as necessary in the circumstances, to other historical or prospective financial information. (Ref: par. A1)

1.2
1.3
1.4

The Compilation Engagement

2. Because a compilation engagement is not an assurance engagement, a compilation engagement does not require the accountant to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements.

4.2

Effective Date

3. This proposed SSARS is effective for compilation reports on financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

1.1

Objective

4. The accountant's objective in a compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements and report in accordance with this standard 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 them to be in accordance with the applicable financial reporting framework.

4.1

Definitions

5. For purposes of SSARSs, the following terms have the meanings attributed as follows:

Applicable financial reporting framework. The financial reporting framework adopted by management and, when appropriate, those charged with governance, in the preparation and fair presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements or that is required by law or regulation.

2.
Applicable
Financial
Reporting
Framework

Basic financial statements. Financial statements excluding supplementary information and required supplementary information.

Fin. statements

Financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the

n/a

financial statements (for example, U.S. GAAP, International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework).

Australian
Accounting
standards

Generally accepted accounting principles (GAAP). Reference to *generally accepted accounting principles* in SSARSS means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to Rules 202, *Compliance With Standards* and 203, *Accounting Principles* (AICPA, *Professional Standards*).

client

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

misstatement

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

n/a

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

Alternative
Financial
Reporting
Framework

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

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

- e. **Other basis.** A basis of accounting that utilizes a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

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

Supplementary information. Financial information presented outside the financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework.

n/a

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

Those charged with Governance

Requirements

Engagement Acceptance

6. The accountant should not accept a compilation engagement unless the accountant has agreed to the terms of the engagement with management and recorded those terms in an engagement letter or other suitable form of written agreement. The engagement letter or other suitable form of written agreement should include the following: (Ref: par. A2–A3 and A8)
 - a. Identification of the applicable financial reporting framework, including whether the financial statements will omit substantially all disclosures required by the applicable financial reporting framework (Ref: par. A4)
 - b. The objective, scope, and limitations of the engagement
 - c. The responsibilities of the accountant, including the requirement to perform the engagement in accordance with SSARSs and comply with relevant ethical requirements
 - d. The responsibilities of management for (Ref: par. A5–A6)
 - i. the preparation and fair presentation of the financial statements in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial statements and the intended users;
 - ii. unless the financial statements omit substantially all disclosures, the inclusion of all informative disclosures that are appropriate for the financial reporting framework used to prepare the entity's financial statements. If the financial statements are prepared in accordance with a special purpose framework, this includes

7.1

7.2

- (1) a description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from GAAP, the effects of which need not be quantified, and informative disclosures similar to those required by GAAP, in the case of special purpose financial statements that contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, (Ref: par. A21–A22)
 - (2) a description of any significant interpretations of the contract on which the special purpose financial statements are prepared, in the case of financial statements prepared in accordance with a contractual basis of accounting, and
 - (3) additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation.
- iii. the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error;
 - iv. preventing and detecting fraud;
 - v. ensuring that the entity complies with laws and regulations applicable to its activities;
 - vi. the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the compilation engagement; and
 - vii. providing the accountant with
 - (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
 - (2) additional information that the accountant may request from management for the purpose of the compilation; and
 - (3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.

e. The expected form and content of the accountant's report

- 7.2 7. The engagement letter or other suitable form of written agreement should be signed by
- a. the accountant or the accountant's firm and
 - b. management. (Ref: par. A7)

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework

- 8.1 8. The accountant should obtain an understanding of the applicable financial reporting framework intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management. (Ref: par. A9)

Compilation Procedures

9. The accountant should read the financial statements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management and consider whether such financial statements appear to be appropriate in form and free from obvious material misstatements. 8.5
9.1
10. If, in the course of the engagement, the accountant becomes aware that the records, documents, explanations, or other information, including significant judgments, provided by management are incomplete, inaccurate, or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information. (Ref: par. A10) 8.3
8.4
9.2
11. If the accountant becomes aware during the course of the engagement that
- a. the financial statements do not adequately refer to or describe the applicable financial reporting framework (Ref: par. A11); 8.3
8.4
 - b. revisions to the financial statements are required for the financial statements to be in accordance with the applicable financial reporting framework; or
 - c. the financial statements are otherwise misleading (Ref: par. A12–A13)
- the accountant should propose the appropriate revisions to management.
12. The accountant should withdraw from the engagement and inform management of the reasons for withdrawing if (Ref: par. A14–A15) 8.4
9.3
- the accountant is unable to complete the engagement because management has failed to provide records, documents, explanations, or other information, including significant judgments, as requested, or
 - management does not make appropriate revisions that are proposed by the accountant or does not disclose such departures in the financial statements, and the accountant determines to not disclose such departures in the accountant's compilation report. (Ref: par. A14)

The Accountant's Compilation Report

13. The accountant's compilation report should be in writing and should (Ref: par. A17 and A20) 12.6
- a. identify the entity whose financial statements have been subjected to the compilation engagement.
 - b. specify the date or period covered by the financial statements.
 - c. include a statement that management (owners) is (are) responsible for the financial statements.

- d. include a statement that the accountant performed the compilation engagement in accordance with SSARSS promulgated by the Accounting and Review Services Committee of the AICPA.
- e. include a statement that the accountant did not audit or review the financial statements nor was the accountant required to perform any procedures to verify the accuracy or completeness of the information provided by management and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on the financial statements.
- f. include the signature of the accountant or the accountant's firm. (Ref: par. A18)
- g. include the city and state where the accountant practices. (Ref: par. A19)
- h. include the date of the report, which should be the date that the accountant has completed the procedures required by this proposed SSARS.

Accountant's Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework

12.6 (K)
+
Section 6

- 14. Unless the entity elects to omit substantially all disclosures, the accountant should modify the compilation report when that accountant becomes aware that the financial statements do not include
 - a. a description of the special purpose framework. (Ref: par. A21)
 - b. a summary of significant accounting policies. (Ref: par. A22)
 - c. an adequate description about how the special purpose framework differs from GAAP. The effects of these differences need not be quantified. (Ref: par. A23)
 - d. informative disclosures similar to those required by GAAP when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP. (Ref: par. A24)

proposed for
inclusion

- 15. In the case of financial statements prepared in accordance with a contractual basis of accounting, the accountant should modify the compilation report if the financial statements do not adequately describe any significant interpretations of the contract on which the financial statements are based.

12.6

- 16. The accountant's compilation report on financial statements prepared in accordance with a special purpose framework should

- when management has a choice of financial reporting frameworks in the preparation of such financial statements, make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

proposed for
inclusion

- when the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. (Ref: par. A25)

17. The accountant's compilation report on financial statements prepared in accordance with a special purpose framework should include a separate paragraph that
- indicates that the financial statements are prepared in accordance with the applicable special purpose framework,
 - refers to the note to the financial statements that describes the framework, if applicable, and
 - states that the special purpose framework is a basis of accounting other than GAAP.

12.6 (j)

Reporting When the Accountant Is Not Independent

3.3-3.4

18. When the accountant is not independent with respect to the entity, the accountant should indicate the accountant's lack of independence in a final paragraph of the accountant's compilation report. (Ref: par. A26-A28)
19. If the accountant elects to disclose a description about the reasons the accountant's independence is impaired, the accountant should include all such reasons in the description.

12.6 (d)

12.6 (d)

Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework

20. The accountant should not issue an accountant's compilation report on financial statements that omit substantially all disclosures required by the applicable financial reporting framework unless the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.
21. When reporting on financial statements that omit substantially all disclosures required by the applicable financial reporting framework, the accountant should include a separate paragraph in the accountant's compilation report that includes the following elements: (Ref: par. A29-A30)
- 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 a special purpose framework)
 - b. A statement that if the omitted disclosures (and the statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the entity's financial position, results of operations, and cash flows (or the equivalent for presentations other than GAAP)
 - c. A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters
22. The omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation report like any other departure from the applicable

Sections
8 & 9

n/a

financial reporting framework, and the nature of the departure and its effects, if known, should be disclosed in accordance with paragraphs 23–26.

Reporting Known Departures From the Applicable Financial Reporting Framework

12.6 (k)

23. When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and the financial statements are not revised, or the departure is not disclosed in the notes to the financial statements, the accountant should modify the compilation report to disclose the departure.
24. The effects of the departure on the financial statements should be disclosed if such effects have been determined by management or are readily known to the accountant as the result of the accountant's procedures. (Ref: par. A32)
25. If the effects of the departure have not been determined by management or are not readily known to the accountant as a result of the accountant's procedures, the accountant is not required to determine the effects of a departure; however, in such circumstances, the accountant should state in the report that such determination has not been made by management.
26. If the accountant believes that modification of the compilation report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the engagement and provide no further services with respect to those financial statements. (Ref: par. A15)
27. The accountant should not modify the compilation report to include a statement that the financial statements are not in conformity with the applicable financial reporting framework. (Ref: par. A31)

Information Presented for Supplementary Analysis Purposes That Accompanies Financial Statements and the Accountant's Compilation Report Thereon

n/a

28. When information presented for supplementary analysis accompanies financial statements and the accountant's compilation report thereon, the accountant should include an additional paragraph in the accountant's compilation report on the financial statements to clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information. (Ref: par. A33)
29. When the accountant has performed a compilation engagement with respect to both the financial statements and the information presented for supplementary analysis purposes, the accountant should report on such information in either (a) a separate paragraph in the accountant's compilation report on the financial statements or (b) a separate report on the information presented for supplementary analysis purposes. The separate paragraph in the accountant's compilation report on the financial statements or the separate report on the information presented for supplementary analysis purposes should state that (Ref: par. A34–A35)

- a. the information is presented for purposes of additional analysis and is not a required part of the financial statements and
- b. the accountant performed a compilation engagement in accordance with SSARSS promulgated by the AICPA on information that is the representation of management, and the accountant has not audited or reviewed the information and, accordingly, does not express an opinion, a conclusion, nor any form of assurance on such information.

Required Supplementary Information

n/a

30. In regards to the requirement in paragraph 28, with respect to required supplementary information, the separate paragraph in the accountant's compilation report should include language to explain the following circumstances, as applicable: (Ref: par. A36)
- a. The required supplementary information is included, and the accountant performed a compilation engagement on the required supplementary information.
 - b. The required supplementary information is included, and the accountant did not perform a compilation, review, or audit on the required supplementary information.
 - c. The required supplementary information is omitted.
 - d. Some required supplementary information is missing, and some is presented in accordance with the prescribed guidelines. (Ref: par. A37)
 - e. The accountant has identified departures from the prescribed guidelines.
 - f. The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.
31. If the entity has presented all or some of the required supplementary information and the accountant did not perform a compilation engagement on the required supplementary information, the separate paragraph in the accountant's compilation report referred to in paragraph 28 should include the following elements: (Ref: par. A38)
- a. A statement that *[identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* requires that the *[identify the required supplementary information]* be presented to supplement the basic financial statements
 - b. A statement that such information, although not a part of the basic financial statements, is required by *[identify designated accounting standard-setter]*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
 - c. A statement that the accountant did not perform a compilation, review, or audit on the required supplementary information and, accordingly, does not express an opinion, a conclusion, or provide any assurance on the information
 - d. If some of the required supplementary information is omitted
 - i. a statement that management has omitted *[description of the missing required supplementary information]* that *[identify the applicable financial reporting*

framework (for example, accounting principles generally accepted in the United States of America)] require to be presented to supplement the basic financial statements

- ii. a statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standard-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
- e. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]
- f. If the accountant has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that the accountant has doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [*identify designated accounting standard-setter*]

- n/a
32. If all the required supplementary information is omitted, the separate paragraph in the accountant's compilation report should include the following elements:
- a. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)] require to be presented to supplement the basic financial statements*
 - b. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standard-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

Documentation in a Compilation Engagement

- 10.1
33. The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following:
- a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs 6–7
 - b. A copy of the financial statements
 - c. A copy of the accountant's report
- 10.1
34. If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for

the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.

Application and Other Explanatory Material

Scope (Ref: par. 1)

- A1.** Other historical or prospective financial information that may be the subject of a compilation engagement include the following: 1.9
- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
 - Supplementary information
 - Required supplementary information
 - Pro forma financial information
 - Prospective financial information, including budgets, forecasts, or projections

Engagement Acceptance (Ref: par. 6)

- A2.** An engagement letter is the most common, and usually the most convenient, method for documenting the understanding with management regarding the services to be performed for compilation engagements. A formal contract is another suitable form of written agreement. A verbal understanding with management is insufficient to meet the requirement in paragraph 6. 7.1
- A3.** Both management and the accountant have an interest in documenting the terms of the compilation engagement before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or perform certain functions, including those that are management's responsibility. 7.2
- A4.** Management's decision about the financial reporting framework that it adopts for the financial statements is made in the context of the intended use of the financial statements and the requirements of any applicable law or regulation. 7.2
- A5.** In accordance with this proposed SSARS, the accountant is required to obtain the agreement of management on management's responsibilities in relation to both the financial statements and the compilation engagement as a condition precedent to accepting the engagement. In smaller entities, management may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management's agreement on an informed basis, the accountant may find it necessary to discuss those responsibilities with management in advance of seeking management's agreement on its responsibilities. Section 11

Section
1)

- A6. The accountant is entitled to rely on management to provide all relevant information for the compilation engagement on an accurate, complete, and timely basis. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations, and other information relevant to the preparation of the financial statements in accordance with the applicable financial reporting framework. The information provided may include, for example, information about management assumptions, intentions, or plans underlying development of accounting estimates needed to prepare the financial statements in accordance with the applicable financial reporting framework.
- A7. In some entities, other parties, such as those charged with governance, may be the appropriate parties to sign the engagement letter or other suitable form of written agreement.

7.2/
Appendix 1

- A8. An illustrative example of an engagement letter for a compilation engagement is presented in exhibit A, "Illustrative Engagement Letter."

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework (Ref: par. 8)

8.1

- A9. The requirement that the accountant obtain an understanding of the applicable financial reporting framework intended to be used in the preparation of the financial statements, and the significant accounting policies adopted by management, does not prevent the accountant from accepting a compilation engagement for an entity in an industry in which the accountant has no previous experience. The accountant may obtain such understanding, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals who are knowledgeable about the framework or the industry.

Compilation Procedures (Ref: par. 10–12, 21, and 26)

8.2

- A10. The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity. However, the accountant may have performed such inquiries or procedures and the results of those inquiries or procedures, knowledge gained from prior engagements, or the financial statements on their face may cause the accountant to become aware that information provided by management is incorrect, incomplete, or otherwise unsatisfactory.

- A11. The financial statements may adequately refer to or describe the applicable financial reporting framework via

- the financial statement titles or
- the notes to the financial statements.

8.3
8.4

- A12. Financial statements may be misleading, for example, if the applicable financial reporting framework includes the premise that the financial statements are prepared on the going

concern basis, and undisclosed uncertainties exist regarding the entity's ability to continue as a going concern. If the accountant becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the accountant may, as appropriate, suggest a more appropriate presentation in accordance with the applicable financial reporting framework or appropriate disclosures concerning the entity's ability to continue as a going concern, in order to be in compliance with that framework and avoid the financial statements being misleading.

- A13. Disclosure of items, such as an uncertainty, is not required in financial statements in which substantially all the disclosures required by the applicable financial reporting framework are omitted.
- A14. In circumstances addressed by the requirements of this proposed SSARS in which withdrawal from the engagement is necessary, the responsibility to inform management of the reasons for withdrawing provides an opportunity to explain the accountant's ethical obligations.
- A15. When making a determination about whether and how to withdraw from an engagement, the accountant may wish to consult with legal counsel.

The Accountant's Compilation Report (Ref: par. 13)

- A16. The accountant may issue a compilation report on financial statements that the accountant prepared even if not so engaged. The accountant may determine, for example, that a report would reduce the likelihood that a user of the financial statements may inappropriately infer an unintended level of reliance on the financial information.
- A17. The accountant's written report may become unattached from the financial statements. To minimize the possibility that a user of the financial statements may infer an unintended level of reliance on the financial statements, the accountant may request that management include a reference on each page of the financial statements to the accountant's written report. An example of a reference to the accountant's written report included on each page of the financial statements is "See Accountant's Report" or "See Accountant's Compilation Report."
- A18. The signature of the accountant or the accountant's firm may be manual, printed, or digital, as appropriate.
- A19. The city and state where the accountant practices may be indicated on letterhead that contains the issuing office's city and state.
- A20. Illustrative examples of accountant's compilation reports are presented in exhibit B, "Illustrative Examples of the Accountant's Compilation Reports on Financial Statements."

Accountant's Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework (Ref: par. 6, 14, and 16)

Sections
6 &
12

- A21.** The description of the special purpose framework may be included in the financial statement titles, in the notes to the financial statements, or otherwise on the face of the financial statements. Although terms such as *balance sheet*, *statement of financial position*, *statement of income*, *statement of operations*, and *statement of cash flows*, or similar unmodified titles, are generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP, such titles, with appropriate modification, may be used in connection with financial statements prepared in accordance with a special purpose framework. Suitable financial statement titles for financial statements prepared in accordance with a special purpose framework include, but are not limited to
- a modified cash basis financial statement that might be titled
 - “Income Statement—Modified Cash Basis.”
 - “Statement of Cash Receipts and Disbursements.”
 - financial statements prepared in accordance with the tax basis of accounting that might be titled
 - “Balance Sheet—Tax Basis,”
 - “Statement of Assets, Liabilities, and Equity—Tax Basis,”
 - “Statement of Operations—Tax Basis,” or
 - “Statement of Revenue and Expenses—Tax Basis.”
 - a financial statement prepared in accordance with a regulatory basis of accounting that might be titled “Statement of Income—Regulatory Basis.”
- A22.** Financial statements prepared in accordance with a special purpose framework need not include a summary of significant accounting policies or a description about how the special purpose framework differs from GAAP if such financial statements omit substantially all disclosures, and the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.
- A23.** The description of how the special purpose framework differs from GAAP ordinarily only includes the material differences between GAAP and the special purpose framework. For example, if several items are accounted for differently in accordance with the special purpose framework than they would be in accordance with GAAP, but only the differences in how depreciation is calculated are material, a brief description of the depreciation differences is all that would be necessary, and the remaining differences need not be described or quantified.
- A24.** Financial statements prepared when applying a special purpose framework are not considered appropriate in form unless the financial statements include 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.

- A25.** When the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, the accountant is required by paragraph 16 to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid misunderstandings when the financial statements are used for purposes other than those for which they were intended. The note to the financial statements may also describe any significant interpretations of the contract on which the financial statements are based.

Reporting When the Accountant Is Not Independent (Ref: par. 18)

- A26.** An example of a disclosure that an accountant may make to indicate the accountant's lack of independence would be

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

- A27.** The accountant is not precluded from disclosing a description about the reason(s) that the accountant's independence is impaired. The following are examples of descriptions the accountant may use:

- 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.
- 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.
- 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.

- A28.** Illustrative examples of accountant's compilation reports when the accountant's independence has been impaired are presented in exhibit B.

Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework (Ref: par. 21)

- A29.** When management elects to include disclosures about only a few matters in the notes to the financial statements, such disclosures may be labeled "Selected Information—Substantially All Disclosures Required by *[the applicable financial reporting framework]* Are Not Included."

3.5/
Appendix
2

- A30. An illustrative example of an accountant's compilation report on financial statements that omit substantially all disclosures required by the applicable financial reporting framework is presented in illustration 3 to exhibit B.

Reporting Known Departures From the Applicable Financial Reporting Framework (Ref: par. 24 and 26)

- A31. The accountant is precluded from including a statement that the financial statements are not in conformity with the applicable financial reporting framework because such a statement would be tantamount to expressing an adverse opinion on the financial statements as a whole. Such an opinion can be expressed only in the context of an audit engagement.

Example 3:
Compilation
Reports

- A32. An illustrative example of an accountant's compilation report on financial statements that contain known departures from the applicable financial reporting framework that are not disclosed in the notes to the financial statements is presented in illustration 6 to exhibit B.

Information Presented for Supplementary Analysis Purposes That Accompanies Financial Statements and the Accountant's Compilation Report Thereon (Ref: par. 28–31)

N/A

- A33. Although not required to perform a compilation engagement on information presented for supplementary analysis purposes that accompany financial statements and the accountant's compilation report thereon, nothing precludes the accountant from performing a compilation engagement on such information if engaged to do so.
- A34. The following is an example of how an accountant may word a separate paragraph in the accountant's compilation report addressing information presented for supplementary analysis purposes when the accountant has performed a compilation engagement on both the financial statements and the information presented for supplementary analysis:

Other Matter

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

The following is an example of how an accountant may word a separate paragraph in the accountant's compilation report addressing information presented for supplementary analysis when the accountant has performed a compilation engagement on the financial statements but has not performed a compilation, review, or audit on the information presented for supplementary analysis purposes:

Other Matter

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

- A35. Information presented for supplementary analysis purposes may become unattached from the accountant's compilation report. To minimize the possibility that a user of the information may infer, through the accountant's association with the information, an unintended level of reliance on the information, the accountant may request that management include a reference to the accountant's compilation report on each page of the information. An example of a reference to the accountant's compilation report included on each page of the information presented for supplementary analysis is "See Accountant's Report" or "See Accountant's Compilation Report."

Required Supplementary Information

N/A

- A36. Examples of required supplementary information that may accompany financial statements and the accountant's compilation report thereon include the following:
- With respect to common interest realty associations, estimates of current or future costs of major repairs and replacements of common property that will be required in the future as required by Financial Accounting Standards Board *Accounting Standards Codification* 972-235-50-3
 - Management's discussion and analysis and budgetary comparison statements as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
- A37. Prescribed guidelines are the authoritative guidelines established by the designated accounting standard-setter for the methods of measurement and presentation of the required supplementary information.
- A38. Because the required supplementary information accompanies the basic financial statements, the accountant's compilation report on the financial statements includes a discussion of the responsibility taken by the accountant on that information. However, if the required supplementary information is omitted by the entity, the accountant does not have a responsibility to present that information.

A39.

Exhibit A—Illustrative Engagement Letters (Ref: par. A7)

Illustration 1—An Engagement Letter for An Engagement to Prepare Financial Statements in Accordance With Accounting Principles Generally Accepted in the United States of America and to Perform a Compilation Engagement With Respect to Those Financial Statements

Illustration 2—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 3—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With the Tax Basis of Accounting

The illustrative engagement letters in this exhibit are not authoritative but are intended as illustrations that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances, and the illustrations are drafted to refer to a compilation engagement and an engagement to prepare financial statements, if applicable, for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

Illustration 1—An Engagement Letter for an Engagement to Prepare Financial Statements in Accordance With Accounting Principles Generally Accepted in the United States of America and to Perform a Compilation Engagement With Respect to Those Financial Statements

To the appropriate representative of management of ABC Company:¹

You² have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements,³ and perform a compilation engagement with respect to those financial statements.⁴ We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

¹ The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the compilation engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A7.

² Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

³ If the accountant is to be engaged to prepare financial statements that omit the statement of cash flows and the related notes and perform a compilation engagement with respect to those financial statements, the sentence may be revised to read, "You have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity, and perform a compilation engagement with respect to those financial statements." The following additional sentence may then be added: "These financial statements will not include a statement of cash flows and related notes to the financial statements."

⁴ The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping services.

Our Responsibilities

The objective of our engagement is to

- a.* prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and
- b.* apply accounting and financial reporting expertise to assist you in the presentation 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 in order for them to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to and will not verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion, nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and to assist you in the presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARs:

- a.* The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America
- b.* The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- c.* The prevention and detection of fraud
- d.* To ensure that the entity complies with the laws and regulations applicable to its activities
- e.* To make all financial records and related information available to us
- f.* The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

Other relevant information

Our fees for these services

[The accountant may include language, such as the following, regarding limitation of or other arrangements regarding the liability of the accountant or the entity, 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):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a compilation engagement with respect to those same financial statements, and our respective responsibilities.

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and title]

[Date]

Illustration 2—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

To the appropriate representative of management of ABC Company:¹

You² have requested that we perform a compilation engagement with respect to the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and

¹ The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the compilation engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A7.

the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.^{3, 4} We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

Our Responsibilities

The objective of our compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation 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 in order for them to be in accordance with accounting principles generally accepted in the United States of America. We will conduct our compilation engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSS) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the compilation engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion, a conclusion, nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Your Responsibilities

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to assist you in the presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the compilation engagement in accordance with SSARSS:

- a. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America
- b. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- c. The prevention and detection of fraud

² Throughout this engagement letter, references to *you, we, us, management, and accountant* would be used or amended as appropriate in the circumstances.

³ If the accountant is to be engaged to perform a compilation engagement with respect to financial statements that omit the statement of cash flows and the related notes, the sentence may be revised to read, "You have requested that we perform a compilation engagement with respect to the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity." The following additional sentence may then be added: "These financial statements will not include a statement of cash flows and related notes to the financial statements."

⁴ The accountant may include nonattest services to be performed as part of the engagement such as income tax preparation and bookkeeping service.

- d. To ensure that the entity complies with the laws and regulations applicable to its activities
- e. To make all financial records and related information available to us
- f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the compilation engagement

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

Other Relevant Information

Our fees for these services

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, 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):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorneys' fees, resulting from management's knowing misrepresentations to us.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to perform a compilation engagement with respect to the financial statements described herein and our respective responsibilities.

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and title]

[Date]

Illustration 3—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With the Tax Basis of Accounting

To the appropriate representative of management of ABC Company:¹

You² have requested that we perform a compilation engagement with respect to the financial statements of ABC Company, which comprise the statement of assets, liabilities, and equity—tax basis as of December 31, 20XX, and the related statements of operations and retained earnings—tax basis, and cash flows—tax basis for the year then ended, and the related notes to the financial statements.^{3,4} We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

Our Responsibilities

The objective of our compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation 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 in order for them to be in accordance with the tax basis of accounting. We will conduct our compilation engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSS) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the compilation engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion, a conclusion, nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Your Responsibilities

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to assist you in the presentation of the financial statements in accordance with the tax basis of accounting. You have the following overall responsibilities that are fundamental to our undertaking the compilation engagement in accordance with SSARSS:

¹ The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the compilation engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A7.

² Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* would be used or amended as appropriate in the circumstances.

³ If the accountant is to be engaged to perform a compilation engagement with respect to financial statements that omit the statement of cash flows—tax basis and the related notes, the sentence may be revised to read, "You have requested that we perform a compilation engagement with respect to the financial statements of ABC Company, which comprise the statement of assets, liabilities, and equity—tax basis as of December 31, 20XX, and the related statement of operations and retained earnings—tax basis." The following additional sentence may then be added: "These financial statements will not include a statement of cash flows—tax basis and related notes to the financial statements."

⁴ The accountant may include nonattest services to be performed as part of the engagement such as income tax preparation and bookkeeping services.

- a. The preparation and fair presentation of financial statements in accordance with the tax basis of accounting
- b. The inclusion of all informative disclosures that is appropriate for the tax basis of accounting. This includes
 - i. a description of the tax basis of accounting, including a summary of significant accounting policies, and how the tax basis of accounting differs from accounting principles generally accepted in the United States of America, the effects of which need not be quantified and
 - ii. informative disclosures similar to those required by accounting principles generally accepted in the United States of America.⁵
- c. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- d. The prevention and detection of fraud
- e. To ensure that the entity complies with the laws and regulations applicable to its activities
- f. To make all financial records and related information available to us
- g. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the compilation engagement

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

Other Relevant Information

Our fees for these services

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, 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):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorneys' fees, resulting from management's knowing misrepresentations to us.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to perform a compilation engagement with respect to the financial statements described herein and our respective responsibilities.

Sincerely yours,

⁵ The responsibility described in (b)(ii) need not be included if the financial statements omit substantially all disclosures required by the financial reporting framework.

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and title]

[Date]

A40.

Exhibit B—Illustrative Examples of the Accountant's Compilation Reports on Financial Statements (Ref: par. A19, A29, and A30)

Illustration 1—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 2—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities

Illustration 3—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the Tax Basis of Accounting, and Management Has Elected to Omit Substantially All Disclosures Ordinarily Included in Financial Statements Prepared in Accordance With the Tax Basis of Accounting

Illustration 4—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant's Independence Is Impaired, and the Accountant Determines to Not Disclose the Reasons for the Independence Impairment

Illustration 5—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities When the Accountant's Independence Has Been Impaired Due to the Accountant Having a Financial Interest in the Entity, and the Accountant Decides to Disclose the Reason for the Independence Impairment

Illustration 6—An Accountant's Compilation Report on Comparative Financial Statements, and The Accountant Is Aware of Departures From Accounting Principles Generally Accepted in the United States of America

Illustration 1—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 2—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

I (we) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 3—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the Tax Basis of Accounting, and Management Has Elected to Omit Substantially All Disclosures Ordinarily Included in Financial Statements Prepared in Accordance With the Tax Basis of Accounting

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with the tax basis of accounting. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The financial statements are prepared in accordance with the tax basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Management has elected to omit substantially all the disclosures ordinarily included in financial statements prepared in accordance with the 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.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 4—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant's Independence Has Been Impaired, and the Accountant Determines to Not Disclose the Reasons for the Independence Impairment

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

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

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 5—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities When the Accountant's Independence Has Been Impaired Due to the Accountant Having a Financial Interest in the Entity, and the Accountant Decides to Disclose the Reason for the Independence Impairment

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1 in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by

management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

I (we) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

I am (we are) not independent with respect to XYZ Company as during the year ended December 31, 20X2, I (a member of the engagement team) had a direct financial interest in XYZ Company.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 6—An Accountant's Compilation Report on Comparative Financial Statements, and the Accountant Is Aware of Departures From Accounting Principles Generally Accepted in the United States of America

Management is responsible for the accompanying financial statements of XYZ Company as of, and for the years ended, December 31, 20X2 and 20X1. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Accounting principles generally accepted in the United States of America require that land be stated at cost. Management has informed me (us) that XYZ Company has stated its land at appraised value and that if accounting principles generally accepted in the United States of America had been followed, the land account and stockholders' equity would have been decreased by \$500,000.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Proposed Statement on Standards for Accounting and Review Services *Association With Financial Statements*

Introduction

Scope

1. This proposed Statement on Standards for Accounting and Review Services (SSARS) addresses the accountant's responsibility when the accountant is associated with financial statements, and the accountant has not issued an audit, review, or compilation report on those financial statements. (Ref: par. A1)
2. The accountant's association with financial statements on which the accountant has been engaged to perform a compilation, review, or audit engagement is addressed in SSARSs and Statements on Auditing Standards, respectively.

Effective Date

3. This proposed SSARS is effective for financial statements with which the accountant is associated on or after December 15, 2015. Early implementation is permitted.

Objective

4. The accountant's objective is to prevent misinterpretation regarding the degree of responsibility the accountant assumes when an accountant is associated with financial statements, and the accountant has not issued an audit, review, or compilation report on those financial statements.

Definition

5. For purposes of SSARSs, the following term has the meaning attributed as follows:

Association with financial statements. An accountant is associated with financial statements when the accountant permits the use of the accountant's name in a report, document, or written communication containing financial statements. (Ref: par. A2)

Requirements

Association With Financial Statements

6. Prior to permitting the use of the accountant's name in a report, document, or written communication containing financial statements on which the accountant has not issued an audit, review, or compilation report, the accountant should read the financial statements for obvious material misstatements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management.

7. If, in the course of reading the financial statements in accordance with paragraph 6, the accountant becomes aware of obvious material misstatements in the financial statements, the accountant should request that management revise the financial statements, as appropriate.
8. If management does not revise the financial statements, as appropriate, the accountant should not permit the use of the accountant's name. (Ref: par. A3)
9. If the accountant permits the use of the accountant's name in a report, document, or written communication containing financial statements, the accountant should
 - a. determine that the financial statements are marked to indicate that no CPA provides any assurance on the financial statements (Ref: par. A4) or
 - b. issue a disclaimer on the financial statements. (Ref: par. A5)

Application and Other Explanatory Material

Scope (Ref: par. 1)

- A1.** This proposed SSARS does not apply to data, such as tax returns, prepared solely for submission to taxing authorities.

Association With Financial Statements (Ref: par. 8–9)

- A2.** In situations when the accountant's name has been used without the accountant's permission, the accountant may
 - a. advise the entity that the use of the accountant's name has not been permitted, and
 - b. consult with the accountant's legal counsel.

- A3.** An example of an adequate notation that may be used is as follows:

No CPA expresses an opinion, a conclusion, nor provides any assurance on these financial statements.

- A4.** An example of a disclaimer that the accountant may use is as follows:

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

