NOTE: Text that should be deleted from the outline is displayed with a line through the text. New text is shown with a blue background.

Study Unit 18 – Review, Compilation, and Special Reports

Page 579, Introductory paragraph: These edits reflect a major update per SSARS 19.

Review and compilation services are provided in conjunction with the dissemination of financial statements. These services are not as comprehensive as an audit (which provides positive assurance that financial statements are presented fairly in accordance with GAAP). Those performed with respect to unaudited financial statements (except for reviews of interim financial information subject to AU 722) are governed by Statements on Standards for Accounting and Review Services (SSARSs), which are codified as AR 50, 100, 200, 90, etc. SSARS 1 (AR 40) is the basic pronouncements on reviews and compilations and reviews and are outlined in the next few pages first two subunits.

Beginning on page 579, 18.1 Compilation: This section has been entirely rewritten to reflect the major update of SSARS 19.

18.1 COMPILATION (AR 80)

1. A compilation is a service with the objective of assisting management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance.
   a. Although a compilation is not an assurance engagement, it is considered an attest engagement because it falls under that set of standards.

2. A compilation differs significantly from a review or an audit of financial statements. As codified by AR 80, a compilation can be contrasted with a review and an audit as follows:

<table>
<thead>
<tr>
<th>Compilation (AR 80)</th>
<th>Review</th>
<th>Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Assurance</td>
<td>Limited Assurance</td>
<td>Positive Assurance</td>
</tr>
</tbody>
</table>

a. A compilation does not contemplate performing inquiries, analytical procedures, or other procedures performed in a review.

b. Additionally, a compilation does not contemplate (1) obtaining an understanding of the entity’s internal control; (2) assessing fraud risk; (3) testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, and confirmation; or (4) examining source documents.

c. Compilations are typically performed for nonissuers.
3. The accountant should establish an understanding with management regarding the services to be performed for compilation engagements and should document the understanding through a written communication with management (e.g., an engagement letter).

4. Understanding of the Entity and Industry
   a. The accountant should possess an understanding of the industry in which the client operates, including the accounting principles and practices generally used in the industry. This understanding should be sufficient to enable the accountant to compile financial statements that are appropriate in form for an entity operating in that industry.
      1) Lack of knowledge does not prevent the accountant from accepting a compilation engagement for an entity in an industry with which the accountant has no previous experience. It does, however, place upon the accountant a responsibility to obtain the required level of knowledge.
   b. The accountant should obtain knowledge about the client, including an understanding of the client’s business and accounting principles and practices used by the client.
      1) The accountant should obtain an understanding of the accounting principles and practices used by the client in measuring, recognizing, recording, and disclosing all significant accounts and disclosures in the financial statements.

5. Compilation Procedures
   a. Reading the financial statements. Before submission of the statements to the client or others, the accountant should read the financial statements and consider whether such financial statements appear to be appropriate in form and free from obvious material errors.
   b. Other compilation procedures. The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity. However, the accountant may have made inquiries or performed other procedures.
      1) The results of such inquiries or procedures, knowledge gained from prior engagements, or the financial statements on their face may cause the accountant to become aware that information supplied by the entity is incorrect, incomplete, or otherwise unsatisfactory or that fraud or an illegal act may have occurred.
         a) The accountant should request that management consider the effect of these matters on the financial statements and communicate the results of such consideration to the accountant.
         b) If the entity refuses to provide additional or revised information, the accountant should withdraw from the engagement.

6. Documentation. The accountant should prepare documentation (working papers) in connection with each compilation engagement to include
   a. The engagement letter documenting the understanding with the client
   b. Any findings or issues that, in the accountant’s judgment, are significant
   c. Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant’s attention
7. **Standard Compilation Report**

   a. The standard compilation report contains three paragraphs. (We recommend that you study the following report to understand its components and the general wording and use of each paragraph.)

   **EXAMPLE**

   **Accountant’s Compilation Report**

   To the Owners of XYZ Company:

   I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

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

   My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

   Signature of accounting firm or accountant  
   <---------- May be manual, stamped, electronic, or typed

   Date  
   <---------- Date of completion of review procedures

   b. Each page of the financial statements should include the statement “See accountant’s compilation report.”

   c. Financial statements prepared in accordance with an other comprehensive basis of accounting (OCBOA) are not considered appropriate in form unless the financial statements include

      1) A description of the OCBOA, including a summary of significant accounting policies and a description of the primary differences from generally accepted accounting principles (GAAP). The effects of the differences need not be quantified.

      2) Informative disclosures similar to those required by GAAP.

8. **Reporting on Financial Statements That Omit Substantially All Disclosures**

   a. An entity may request the accountant to compile financial statements that omit substantially all the disclosures required by an applicable financial reporting framework. The accountant may compile such financial statements provided that the omission of substantially all disclosures is not, to his/her knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.
b. When reporting on financial statements that omit substantially all disclosures, the accountant should include in the compilation report after the paragraph describing the accountant’s responsibility a paragraph with the following elements:

1) A statement that management has elected to omit substantially all the disclosures

2) A statement that if the omitted disclosures (and statement of cash flows, if applicable) were included in the financial statements, they might influence the user’s conclusions about the company’s financial position, results of operations, and cash flows

3) A statement that the financial statements are not designed for those who are not informed about such matters

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

9. Reporting When the Accountant Is Not Independent

a. When the accountant is issuing a report on a compilation of financial statements for an entity from which (s)he is not independent, the accountant’s report should be modified. The accountant should indicate his/her lack of independence in a final paragraph of the accountant’s compilation report.

1) For example, such a disclosure might be

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

b. The accountant may disclose the reason(s) that his/her independence is impaired. For example, such a disclosure might be

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.

1) If the accountant elects to disclose a description about the reasons his/her independence is impaired, the accountant should ensure that all reasons are included in the description.

10. When the compiled financial statements are not expected to be used by a third party, the accountant is not required to issue a compilation report. The accountant should include a reference on each page of the financial statements restricting their use, such as “Restricted for management’s use only,” or “Solely for the information and use by the management of [name of entity] and not intended to be and should not be used by any other party.”

11. The accountant may emphasize a matter in the compilation report. Such explanatory information should be presented in a separate paragraph of the accountant’s report.

a. Emphasis paragraphs are never required; they may be added solely at the accountant’s discretion.
b. Examples of matters that the accountant may wish to emphasize are
   1) Uncertainties
   2) That the entity is a component of a larger business enterprise
   3) That the entity has had significant transactions with related parties
   4) Unusually important subsequent events
   5) Accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period

c. Because an emphasis of matter paragraph should not be used in lieu of management disclosures, the accountant should not include an emphasis paragraph in a compilation report on financial statements that omit substantially all disclosures unless the matter is disclosed in the financial statements.

12. Departures from GAAP or Other Applicable Financial Reporting Framework
   a. If the accountant concludes that modification of the standard report is appropriate because of a departure from GAAP, the departure should be disclosed in a separate paragraph of the report, including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known as the result of the accountant's procedures.
      1) The accountant is not required to determine the effects of a departure if management has not done so, provided that the accountant states in the report that such determination has not been made.

   EXAMPLE -- Language to Modify Report for a Departure from GAAP

   During our compilation, I (we) did become aware of a departure (certain departures) from accounting principles generally accepted in the United States of America that is (are) described in the following paragraph:

   As disclosed in Note X to the 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 the 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.

   b. If the accountant believes that modification of the standard report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the compilation engagement and provide no further services with respect to those financial statements.
      1) There is no adverse compilation report.
      2) The accountant may wish to consult with his/her legal counsel upon withdrawal.

13. General-Use and Restricted-Use Reports
   a. The term general use applies to accountants’ reports that are not restricted to specified parties. Accountants’ reports on financial statements prepared in conformity with an applicable financial reporting framework ordinarily are not restricted regarding use. However, nothing in this section precludes the accountant from restricting the use of any report.
b. The term **restricted use** applies to accountants’ reports intended only for one or more specified third parties.

   1) The need for restriction on the use of a report may result from a number of circumstances, including, but not limited to, the purpose of the report and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used.

c. The accountant should restrict the use of a report when the subject matter of the report or the presentation being reported on is based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions that are not in conformity with an applicable financial reporting framework.

d. If the accountant issues a single combined report covering both (1) subject matter or presentations that require a restriction on use to specified parties and (2) subject matter or presentations that ordinarily do not require such a restriction, the use of such a single combined report **should be restricted** to the specified parties.

e. The accountant should consider informing the client that restricted-use reports are not intended for distribution to nonspecified parties, regardless of whether they are included in a document containing a separate general-use report.

f. An accountant’s restricted-use report should contain a **separate paragraph at the end of the report** that states the restriction.

14. **An Entity’s Ability to Continue as a Going Concern**

   a. During the performance of compilation procedures, evidence or information may come to the accountant’s attention indicating that an uncertainty may exist about the entity’s ability to continue as a going concern for a reasonable period of time, not to exceed 1 year beyond the date of the financial statements being compiled (referred to as a **reasonable period of time**). In those circumstances, the accountant should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure.

   b. After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, the accountant should consider the reasonableness of management’s conclusions, including the adequacy of the related disclosures, if applicable.

   c. If the accountant determines that management’s conclusions are unreasonable or the disclosure of the uncertainty regarding the entity’s ability to continue as a going concern is not adequate, a deviation from GAAP (or other framework) has occurred, and (s)he should follow the guidance in item 12. of this subunit.

   d. The accountant may emphasize an uncertainty about an entity’s ability to continue as a going concern, provided that the uncertainty is disclosed in the financial statements.
15. **Subsequent Events**
   a. If the accountant learns of subsequent events that could affect the financial statements, (s)he should request that management consider the possible effects, including the adequacy of any related disclosure, if applicable.
   b. If the accountant determines that the subsequent event is not adequately accounted for in the financial statements or disclosed in the notes, (s)he should follow the guidance in item 12. of this subunit.

16. **Subsequent Discovery of Facts Existing at the Date of the Report**
   a. After the date of the accountant’s compilation report, the accountant has no obligation to perform other compilation procedures with respect to the financial statements unless new information comes to his/her attention. However, when the accountant becomes aware of information that relates to financial statements previously reported on by him/her, but that was not known to the accountant at the date of the report (and that is of such a nature and from such a source that the accountant would have investigated it had it come to his/her attention during the course of the compilation), the accountant should, as soon as practicable, undertake to determine whether the information is reliable and whether the facts existed at the date of the report.
   b. The accountant should discuss the matter with his/her client at whatever management levels the accountant deems appropriate and request cooperation in whatever investigation may be necessary. In addition to management, the accountant may deem it appropriate to discuss the matter with those charged with governance.
   c. When the accountant has concluded that action should be taken to prevent further use of the accountant’s report or the financial statements, the accountant should advise his/her client to make appropriate disclosure of the newly discovered facts and their impact on the financial statements to persons who are known to be currently using or who are likely to use the financial statements.
   d. If the client refuses to make the suitable disclosures, the accountant should notify the appropriate personnel at the highest levels within the entity, such as the manager (owner) or those charged with governance, of such refusal and of the fact that, in the absence of disclosure by the client, the accountant should take steps to prevent further use of the financial statements and the accountant’s report.

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

18. **Fraud and Illegal Acts**
   a. When evidence or information comes to the accountant’s attention during the performance of compilation procedures that fraud or an illegal act may have occurred, that matter should be brought to the attention of the appropriate level of management. The accountant need not report matters regarding illegal acts that are clearly inconsequential.
   b. The communication may be oral or written. If the communication is oral, the accountant should document it.
   c. When matters regarding fraud or an illegal act involve an owner of the business, the accountant should consider resigning from the engagement.
d. The disclosure of any evidence or information that comes to the accountant’s attention during the performance of compilation procedures that fraud or an illegal act may have occurred to parties other than the client’s senior management (or those charged with governance, if applicable) ordinarily is not part of the accountant's responsibility and, ordinarily, would be precluded by the accountant’s ethical or legal obligations of confidentiality. However, the accountant should recognize that in the following circumstances, a duty to disclose to parties outside of the entity may exist:

1) To comply with certain legal and regulatory requirements

2) To a successor accountant when the successor decides to communicate with the predecessor accountant in accordance with AR 400, Communications Between Predecessor and Successor Accountants, regarding acceptance of an engagement to compile or review the financial statements of a nonissuer

3) In response to a subpoena

e. Because potential conflicts between the accountant’s ethical and legal obligations for confidentiality of client matters may be complex, the accountant may wish to consult with legal counsel before discussing matters with parties outside the client.

Beginning on page 581, 18.2 Review: This section has been entirely rewritten to reflect the major update of SSARS 19.

18.2 REVIEW (AR 90)

1. The objective of a review is to express limited assurance that no material modifications should be made to the statements for them to conform with the applicable financial reporting framework (typically GAAP, but may be an other comprehensive basis of accounting, or OCBOA). A review is significantly less in scope than an audit. (See table in item 2. in Subunit 18.1.)

a. AR 90 typically relates to a review of annual financial statements of nonissuers.

b. Alternatively, reviews of interim (e.g., quarterly) financial statements for issuers follow AU 722. (See Study Unit 19, Subunit 1.)

2. A review does not contemplate (a) obtaining an understanding of the entity’s internal control; (b) assessing fraud risk; (c) testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, and confirmation; (d) examining source documents (for example, canceled checks or bank images); or (e) performing other procedures ordinarily performed in an audit. Accordingly, in a review, the accountant does not obtain assurance that (s)he will become aware of all significant matters that would be disclosed in an audit. Therefore, a review is designed to provide only limited assurance.

3. The accountant should establish an understanding with management regarding the services to be performed for review engagements and should document the understanding through a written communication with management (e.g., an engagement letter).

4. Nature of Review Evidence
a. Procedures should be designed to accumulate review evidence that will provide a **reasonable basis** for obtaining **limited assurance** that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework (e.g., GAAP).

b. Review evidence obtained through the performance of **analytical procedures** and **inquiry** will ordinarily provide the accountant with a reasonable basis for obtaining limited assurance. However, the accountant should perform **additional procedures** if the accountant determines that such procedures are necessary to obtain limited assurance that the financial statements do not need modification.

c. The accountant should obtain **written representations** from management.

5. **Understanding of the Entity and Industry**

a. The accountant should possess an understanding of the industry in which the client operates, including the accounting principles and practices generally used in the industry, sufficient to determine the specific nature, timing, and extent of review procedures to be performed.

b. The requirement that the accountant possess a level of knowledge of the industry in which the entity operates **does not prevent the accountant from accepting a review engagement** for an entity in an industry with which the accountant has no previous experience. It does, however, place upon the accountant a responsibility to obtain the required level of knowledge through additional research and study.

c. The accountant should obtain knowledge about the client sufficient to assist the accountant with determining the specific nature, timing, and extent of review procedures to be performed. That knowledge should include the following:

1) An understanding of the client's business
2) An understanding of the accounting principles and practices used by the client

d. The accountant’s understanding of an **entity's business** is ordinarily obtained through experience with the entity or its industry and inquiry of the entity’s personnel.

e. The accountant may obtain an understanding of the **accounting policies and procedures** used by management through inquiry, the review of client-prepared documents, or experience with the client.

6. **Designing and Performing Review Procedures**

a. The accountant should design and perform **analytical procedures** and make **inquiries** and perform other procedures based on

1) His/her understanding of the industry,
2) His/her knowledge of the client, and
3) The risk of material misstatement.

b. The accountant should focus procedures in those areas where (s)he believes there are increased risks of misstatements.
7. **Analytical Procedures**

   a. **Analytical procedures** involve comparisons of expectations developed by the accountant to the client’s recorded amounts or ratios. The accountant develops such expectations by identifying and using **plausible relationships** that are reasonably expected to exist based on the accountant’s understanding of the industry in which the client operates and knowledge of the client. Following are five sources of information for developing expectations:

   1) Financial information for **comparable prior period(s)**, giving consideration to known changes
   2) **Anticipated results**, for example, budgets or forecasts
   3) **Relationships** among elements of financial information within the period
   4) Information regarding the **industry** in which the client operates
   5) Relationships of financial information with relevant **nonfinancial information**

   b. Analytical procedures may be performed at the **financial statement level** or at the **detailed account level**. Those at the financial statement level typically provide evidence of the “big picture.” For example, the accountant may question whether the size of the warehouse is sufficient to hold the entire reported inventory. Alternatively, detailed information, for example, a month-to-month comparison of the prior year’s receivable with the current year’s, provides evidence of potential account balance misstatement.

   c. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that **differ from expected values** by a significant amount, the accountant should investigate these differences first by questioning management and then by performing other procedures as necessary in the circumstances.

8. **Inquiries and Other Review Procedures**

   a. The accountant should consider

   1) **Inquiring** of members of management who have responsibility for financial and accounting matters concerning

      a) Whether the financial statements have been prepared in conformity with the applicable financial reporting framework (e.g., GAAP)
      b) The entity’s accounting principles and practices and the methods followed in applying them
      c) The entity’s procedures for recording, classifying, and summarizing transactions and accumulating information for disclosure in the financial statements
      d) Unusual or complex situations that may have an effect on the financial statements
      e) Significant transactions occurring or recognized near the end of the reporting period
      f) The status of uncorrected misstatements identified during the previous engagement
      g) Questions that have arisen in the course of applying the review procedures
h) Events subsequent to the date of the financial statements that could have a material effect on the financial statements

i) Their knowledge of any fraud or suspected fraud affecting the entity involving management or others

j) Significant journal entries and other adjustments

k) Communications from regulatory agencies

l) Actions taken at meetings of shareholders, the board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements

2) **Reading** the financial statements to consider, on the basis of information coming to the accountant’s attention, whether the financial statements appear to conform with the applicable financial reporting framework

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

b. The accountant ordinarily **is not required to corroborate management’s** responses with other evidence; however, the accountant should consider the reasonableness and consistency of management’s responses in light of the results of other review procedures and the accountant’s knowledge of the client’s business and the industry in which it operates.

9. Incorrect, Incomplete, or Otherwise Unsatisfactory Information

a. During the performance of review procedures, the accountant may become aware that information coming to his/her attention is incorrect, incomplete, or otherwise unsatisfactory. In such instances, the accountant should request that management consider the effect of these matters on the financial statements and communicate the results of its consideration to the accountant.

1) If the accountant believes the financial statements may be materially misstated, the accountant should **perform additional procedures** deemed necessary to obtain limited assurance that no material modifications should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.

2) If the accountant concludes that the financial statements are materially misstated, the accountant should modify the report, as discussed in item 17. of this subunit.

b. The accountant may perform reconciliations, confirmations, tests of details, or other procedures to gain the evidence to provide limited assurance. AR 90, however, does not specifically identify required additional procedures but expects the accountant to use appropriate judgment.

10. **Written representations are required** from management (a management representations letter) for all financial statements and periods covered by the accountant’s review report.

a. If current management was not present during all periods covered by the accountant’s report, the accountant should nevertheless obtain written representations from current management for all such periods.
b. The specific written representations obtained by the accountant will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements.

c. Because the accountant is concerned with events occurring through the date of the report that may require adjustment to or disclosure in the financial statements, management’s representations set forth in the management representation letter should be made as of the date of the accountant’s review report.

d. The letter should be signed by those members of management whom the accountant believes are responsible for and knowledgeable about (directly or through others in the organization) the matters covered in the representation letter. Normally, the chief executive officer and chief financial officer or others with equivalent positions in the entity should sign the representation letter.

11. Documentation in a Review Engagement

a. The accountant should prepare documentation (working papers) in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of review procedures performed), the review evidence obtained and its source, and the conclusions reached.

b. Documentation

1) Provides the principal support for the representation in the accountant’s review report that the accountant performed the review in accordance with SSARS

2) Provides the principal support for the conclusion that the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework

c. The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant’s professional judgment. The accountant’s documentation should include

1) The engagement letter

2) The analytical procedures performed

3) The significant matters covered in the accountant’s inquiry procedures and the responses thereto

4) Any findings or issues that, in the accountant’s judgment, are significant (for example, the results of review procedures that indicate the financial statements could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached)

5) Significant unusual matters that the accountant considered during the performance of the review procedures, including their disposition

6) Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant’s attention

7) The management representation letter
12. **Standard Report**  
   a. The accountant’s objective in reporting on the financial statements is **to prevent misinterpretation of the degree of responsibility** the accountant is assuming when his/her name is associated with the financial statements.  
   b. When the accountant has **no reservations** providing limited assurance on the financial statements, (s)he issues a standard report.  
   c. **Each page** of the financial statements reviewed by the accountant should include a reference, such as “**See Independent Accountant’s Review Report.**”  
   d. The following is an example of the standard review report. (We recommend that you study the report to understand its components and the general wording and use of each paragraph.)

<table>
<thead>
<tr>
<th>EXAMPLE</th>
<th>Independent Accountant’s Review Report</th>
</tr>
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<tbody>
<tr>
<td>To the Owners of XYZ Company:</td>
<td></td>
</tr>
<tr>
<td>I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management’s (owners’) financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.</td>
<td></td>
</tr>
<tr>
<td>Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.</td>
<td></td>
</tr>
<tr>
<td>My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) report.</td>
<td></td>
</tr>
<tr>
<td>Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.</td>
<td></td>
</tr>
<tr>
<td>Signature of accounting firm or accountant &lt;-------- May be manual, stamped, electronic, or typed</td>
<td></td>
</tr>
<tr>
<td>Date &lt;-------- Date of completion of the review procedures</td>
<td></td>
</tr>
</tbody>
</table>

13. When the accountant is unable to perform the inquiry and analytical procedures (s)he considers necessary or the client does not provide the accountant with a representation letter, the review will be incomplete.  
   a. An incomplete review does not provide an adequate basis for issuing a review report. In such a situation, the accountant should consider the effect on the engagement and report.  
   b. A typical response would be to withdraw from the engagement.  
   c. The accountant may wish to consult with his/her legal counsel in those circumstances.  
14. The accountant may be asked to issue a review report on one financial statement, such as a balance sheet, and not on other related financial statements, such as the statements of income, retained earnings, and cash flows. The accountant may do so if the scope of his/her inquiry and analytical procedures has not been restricted.
15. Financial statements prepared in accordance with an OCBOA are not considered appropriate in form unless the financial statements include
   a. A description of the OCBOA, including a summary of significant accounting policies and a description of the primary differences from GAAP. The effects of the differences need not be quantified.
   b. Informative disclosures similar to those required by GAAP.

16. The accountant may emphasize a matter disclosed in the financial statements.
   a. Such explanatory information should be presented in a separate paragraph of the accountant’s report.
   b. Emphasis paragraphs are never required; they may be added solely at the accountant’s discretion.
   c. The following are examples of matters that the accountant may wish to emphasize:
      1) Uncertainties
      2) That the entity is a component of a larger business enterprise
      3) That the entity has had significant transactions with related parties
      4) Unusually important subsequent events
      5) Accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period

17. Departures from the Applicable Financial Reporting Framework
   a. An accountant who is engaged to review financial statements may become aware of a departure from the applicable financial reporting framework (e.g., failure to follow GAAP or include adequate disclosure) that is material to the financial statements.
      1) If the financial statements are not revised, the accountant should consider whether modification of the standard report is adequate to disclose the departure.
      2) If the accountant concludes that modification of the standard report is appropriate, an “except for” modification should be included with the departure disclosed in a separate paragraph of the report, including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known as the result of the accountant’s procedures.
      3) The accountant is not required to determine the effects of a departure if management has not done so, provided that the accountant states in the report that such determination has not been made.
4) The following is an example of the modification of the conclusion paragraph with the additional explanatory paragraph:

**EXAMPLE -- Language to Modify Review Report for a Departure from GAAP**

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

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

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

18. General-Use and Restricted-Use Reports

a. The term general use applies to accountants’ reports that are not restricted to specified parties.

   1) Accountants’ reports on financial statements prepared in conformity with an applicable financial reporting framework ordinarily are not restricted regarding use.

   2) However, nothing in this section precludes the accountant from restricting the use of any report.

b. The term restricted use applies to accountants’ reports intended only for one or more specified third parties.

   1) The need for restriction on the use of a report may result from a number of circumstances, including, but not limited to, the purpose of the report and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used.

   c. The accountant should restrict the use of a report when the subject matter of the accountant’s report or the presentation being reported on is based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions that are not in conformity with an applicable financial reporting framework.

19. An Entity’s Ability to Continue as a Going Concern

a. During the performance of review procedures, evidence or information may come to the accountant’s attention indicating that there may be an uncertainty about the entity’s ability to continue as a going concern for a reasonable period of time, not to exceed 1 year beyond the date of the financial statements being reviewed (referred to as a reasonable period of time).

   1) In those circumstances, the accountant should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure.
2) After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, the accountant should consider the reasonableness of management’s conclusions, including the adequacy of the related disclosures, if applicable.

3) If the accountant determines that management’s conclusions are unreasonable or the disclosure of the uncertainty regarding the entity’s ability to continue as a going concern is not adequate, (s)he should determine if modification of the standard report (include an “except for” with a separate paragraph) is appropriate to convey the departure.

4) If the accountant believes that modification of the standard report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the review engagement. The accountant may wish to consult with his/her legal counsel in those circumstances.

b. The accountant may emphasize an uncertainty about an entity’s ability to continue as a going concern, provided that the uncertainty is disclosed in the financial statements.

20. Subsequent Events

a. The accountant may identify evidence or information about a subsequent event that has a material effect on the reviewed financial statements.

1) The accountant should request that management consider the possible effects on the financial statements, including the adequacy of any related disclosure, if applicable.

2) If the accountant determines that the subsequent event is not adequately accounted for in the financial statements or disclosed in the notes, the accountant should determine if a modified report is appropriate or whether the accountant should withdraw from the engagement.

b. The accountant may emphasize a subsequent event, provided that the event is disclosed in the financial statements.

21. Subsequent Discovery of Facts Existing at the Date of the Report

a. After the date of the accountant’s review report, the accountant has no obligation to perform other review procedures with respect to the financial statements unless new information comes to his/her attention. However, when the accountant becomes aware of information that relates to financial statements previously reported on by him/her but that was not known to the accountant at the date of the report (and that is of such a nature and from such a source that (s)he would have investigated it had it come to his/her attention during the course of the review), the accountant should, as soon as practicable, undertake to determine whether the information is reliable and whether the facts existed at the date of the report.

1) The accountant should discuss the matter with his/her client at whatever management or governance levels the accountant deems appropriate and request cooperation in whatever investigation may be necessary.

b. The accountant should perform the additional procedures deemed necessary to obtain limited assurance that no material modifications should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.
c. When the accountant has concluded that action should be taken to prevent further use of the report or the financial statements, (s)he should advise the client to make appropriate disclosure of the newly discovered facts and their impact on the financial statements to persons who are known to be currently using or who are likely to use the financial statements. When the client undertakes to make appropriate disclosure, the method used and the disclosure made will depend on the circumstances but should be made as expeditiously as possible.

d. If the client refuses to make the appropriate disclosures (this is expected to be a rare event) the accountant should notify the appropriate personnel at the highest levels within the entity, such as the manager (owner) or those charged with governance, of such refusal and of the fact that, in the absence of disclosure by the client, the accountant should take steps to prevent further use of the financial statements and the accountant’s report.

22. Supplementary Information

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

b. When the accountant has reviewed the basic financial statements, an explanation should be included in the review report or in a separate report on the other data.

c. The report should state that the review has been made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework.

23. Fraud and Illegal Acts

a. When evidence or information comes to the accountant’s attention during the performance of review procedures that fraud or an illegal act may have occurred, that matter should be brought to the attention of the appropriate level of management.

1) The accountant need not report matters regarding illegal acts that are clearly inconsequential.

2) When matters regarding fraud or an illegal act involve senior management, the accountant should report the matter to an individual or group at a higher level within the entity, such as the manager (owner) or those charged with governance.

b. The communication may be oral or written. If the communication is oral, the accountant should document it.

c. When matters regarding fraud or an illegal act involve an owner of the business, the accountant should consider resigning from the engagement. Additionally, the accountant should consider consulting with his/her legal counsel whenever any evidence or information comes to his/her attention during the performance of review procedures that fraud or an illegal act may have occurred, unless such illegal act is clearly inconsequential.
d. The disclosure of any evidence or information that comes to the accountant’s attention during the performance of review procedures that fraud or an illegal act may have occurred to parties other than the client’s senior management (or those charged with governance, if applicable) ordinarily is not part of the accountant’s responsibility and, ordinarily, would be precluded by the accountant’s ethical or legal obligations of confidentiality. The accountant should recognize, however, that in the following circumstances, a duty to disclose to parties outside of the entity may exist:

1) To comply with certain legal and regulatory requirements
2) To a successor accountant when the successor decides to communicate with the predecessor accountant regarding acceptance of an engagement to compile or review the financial statements of a nonissuer
3) In response to a subpoena

e. Because potential conflicts between the accountant’s ethical and legal obligations for confidentiality of client matters may be complex, the accountant may wish to consult with legal counsel before discussing fraud or illegal matters with parties outside the client.

Page 585, 18.3, items 3. and 3.a.: This section was removed as a result of the SSARS update.

3. AR 50, Standards for Accounting and Review Services
   a. An AICPA member who performs compilations and reviews must comply with SSARS.

Page 586, 18.3, item 7.a.: The edit to this section is a result of the SSARS update.

7. AR 600, Reporting on Personal Financial Statements Included in Written Personal Financial Plans
   a. An accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of AR 49080 if the accountant
      1) Has an understanding with the client about its use,
      2) Has no reason to believe that the financial statements will be used to obtain credit or for any other purpose except the financial plan, and
      3) Attaches a report describing the engagement.
Pages 591 through 593, 18.1, questions 1-2, 5, 7-8: The edits to these questions were made as a result of the SSARS update.

1. Statements on Standards for Accounting and Review Services (SSARSs) require an accountant to report when the accountant has
   A. Typed client-prepared financial statements, without modification, as an accommodation to the client.
   B. Provided a client with a financial statement format that does not include monetary amounts, to be used by the client in preparing financial statements.
   C. Proposed correcting journal entries to be recorded by the client that change client-prepared financial statements.
   D. Prepared, through the use of computer software, financial statements to be used by third parties.

   Answer (D) is correct. (CPA, adapted)

   REQUIRED: The situation in which an accountant must issue a report.

   DISCUSSION: The accountant should not consent to the use of his/her name in association with unaudited financial statements of a nonissuer to be used by third parties unless (1) the auditor has compiled or reviewed the financial statements in compliance with SSARSs, or (2) the financial statements are accompanied by an indication that the accountant has not compiled or reviewed the statements and that the accountant assumes no responsibility for them (i.e., issue a disclaimer).

   Answer (A) is incorrect. Typing or reproducing client-prepared financial statements, without modification, as an accommodation to a client does not constitute a submission of financial statements. Answer (B) is incorrect. Without monetary amounts, the presentation is not a financial statement. Answer (C) is incorrect. Journal entries are not a financial statement.

2. An accountant should not submit compile unaudited financial statements to the for management of a nonissuer unless, at a minimum, the accountant
   A. Assists in adjusting the books of account and preparing the trial balance.
   B. Types or reproduces the financial statements.
   C. Complies with the standards applicable to compilation engagements Statements on Standards for Accounting and Review Services.
   D. Applies analytical procedures to the financial statements.

   Answer (C) is correct. (CPA, adapted)

   REQUIRED: The action required of an accountant who submits compiles unaudited financial statements to the for management of a nonissuer.

   DISCUSSION: The accountant should not submit compile unaudited financial statements of a nonissuer to the client or others unless, as a minimum, (s)he complies with the standards set forth in AR 100 applicable to compilation engagements.

   Answer (A) is incorrect. Assisting in adjusting the books of account and preparing the trial balance is not a prerequisite for submission of unaudited statements. Answer (B) is incorrect. Typing or reproducing client-prepared financial statements, without modification, does not constitute a submission of financial statements. Answer (D) is incorrect. Application of analytical procedures is not required by the standards for compilations.

5. Which of the following should not be included in an accountant’s standard report based upon the compilation of an entity’s financial statements?
   A. A statement that a compilation is limited to presenting in the form of financial statements information that is the representation of management.
   B. A statement that the compilation was performed in accordance with Statements on Standards for Accounting and Review Services issued by the AICPA.
   C. A statement that the accountant has not audited or reviewed the statements.
   D. A statement that the accountant does not express an opinion but provides only limited assurance on the statements.

   Answer (D) is correct. (CPA, adapted)

   REQUIRED: The statement not made in the standard compilation report.

   DISCUSSION: A compilation report does not express an opinion or any other form of assurance (AR 400 80). A review report may provide limited (negative) assurance.

   Answer (A) is incorrect. The report should include a statement that a compilation is limited to presenting in the form of financial statements information that is the representation of management. Answer (B) is incorrect. The report should include a statement that the compilation was performed in accordance with the SSARSs. Answer (C) is incorrect. The report should include a statement that the accountant has not audited or reviewed the statements.
7. When an accountant attaches a compilation report to a nonissuer’s financial statements that omit substantially all disclosures required by GAAP, the accountant should indicate in the compilation report that the financial statements are
   A. Not designed for those who are uninformed about the omitted disclosures.
   B. Prepared in conformity with a comprehensive basis of accounting other than GAAP.
   C. Not compiled in accordance with Statements on Standards for Accounting and Review Services.
   D. Special-purpose financial statements that are not comparable to those of prior periods.

   Answer (A) is correct. (CPA, adapted)

   REQUIRED: The statement in a report on a compilation omitting substantially all GAAP disclosures.

   DISCUSSION: When disclosures are omitted, a third paragraph is added to the standard compilation report stating that management has elected to omit substantially all disclosures required by GAAP and that, if the omissions were included, they might influence the users’ conclusions.

   Answer (B) is incorrect. The basis of accounting is not at issue. Answer (C) is incorrect. A compilation in accordance with SSARSs is not inconsistent with omission of GAAP disclosures. Answer (D) is incorrect. Financial statements that omit disclosures are not special-purpose.

8. An accountant may compile a nonissuer's financial statements intended for third-party use that omit all of the disclosures required by GAAP only if the omission is
   I. Clearly indicated in the accountant's report
   II. Not undertaken with the intention of misleading the financial statement users

   A. I only.
   B. II only.
   C. Both I and II.
   D. Either I or II.

   Answer (C) is correct. (CPA, adapted)

   REQUIRED: The situation in which an accountant may compile a nonissuer's financial statements that omit all of the disclosures required by GAAP.

   DISCUSSION: An accountant may accept an engagement to compile financial statements that omit substantially all disclosures required by GAAP, provided the omission is clearly indicated in the report and is not, to his/her knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements (AR 80).

Pages 594 through 598, 18.2, questions 12-20, 22-24: The edits to these questions were made as a result of the SSARS update.

12. In reviewing the financial statements of a nonissuer, an accountant is required to modify the standard review report for which of the following matters?

   Inability to Assess the Risks of Material Misstatement Due to Fraud
   Discovery of Significant Deficiencies in the Design of the Internal Control
   A. Yes Yes
   B. Yes No
   C. No Yes
   D. No No

   Answer (D) is correct. (CPA, adapted)

   REQUIRED: The accountant’s responsibility in a review engagement.

   DISCUSSION: A review does not involve obtaining an understanding of internal control or assessing risk. It also does not involve testing accounting records and responses to inquiries by obtaining corroborating evidence or other tests ordinarily performed in an audit (AR 90). Thus, an auditor must specifically identify and assess the risks of material misstatement due to fraud (AU 316) and must perform procedures to evaluate the effectiveness of the design of controls (AU 314). Because a review consists of making inquiries, applying analytical procedures, and obtaining management representations, the review report need not be modified for the matters specified in the question.
13. Which of the following procedures should an accountant perform during an engagement to review the financial statements of a nonissuer?

   A. Communicating control deficiencies discovered during the assessment of control risk.
   B. Obtaining a client representation letter from members of management.
   C. Sending bank confirmation letters to the entity’s financial institutions.
   D. Examining cash disbursements in the subsequent period for unrecorded liabilities.

Answer (B) is correct. (CPA, adapted)

**REQUIRED:** The procedure performed in a review.

**DISCUSSION:** A review primarily consists of inquiries, analytical procedures, and management representations. In addition, the accountant must obtain a sufficient knowledge of the accounting principles and practices of the entity’s industry and an understanding of the entity’s business. The representations from management should encompass all statements and periods to be covered by the report. The representation letter should be signed by the current managers (usually the CEO and CFO or the equivalent) responsible for, and knowledgeable about, the matters covered (AR 400 90).

Answer (A) is incorrect. Significant deficiencies and material weaknesses must be communicated in an audit, not a review. Answer (C) is incorrect. Confirmations to financial institutions are normally sent in an audit, not a review. Answer (D) is incorrect. Tests of details, e.g., tests of subsequent payments, are performed in an audit, not a review.

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14. Which of the following procedures is usually performed by the accountant in a review engagement of a nonissuer?

   A. Sending a letter of inquiry to the entity’s lawyer.
   B. Comparing the financial statements with statements for comparable prior periods.
   C. Confirming a significant percentage of receivables by direct communication with debtors.
   D. Communicating control deficiencies discovered during the consideration of internal control.

Answer (B) is correct. (CPA, adapted)

**REQUIRED:** The procedure performed by the accountant in a review engagement.

**DISCUSSION:** An accountant should perform inquiries of company personnel, apply analytical procedures, and obtain written representations in a review engagement. Among the analytical procedures identified in AR 400 90 is the comparison of the financial statements with statements for comparable prior periods and with anticipated results.

Answer (A) is incorrect. AR 400 90 does not require that inquiries be made of an entity’s lawyer. Answer (C) is incorrect. AR 400 90 does not require the confirmation of receivables. Answer (D) is incorrect. A review engagement does not contemplate obtaining an understanding of internal control.

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15. Which of the following inquiry or analytical procedures ordinarily are performed in an engagement to review a nonissuer’s financial statements?

   A. Analytical procedures designed to test the accounting records by obtaining corroborating evidence.
   B. Inquiries concerning unusual or complex situations that may have an effect on the financial statements.
   C. Analytical procedures designed to test relevant assertions regarding continued existence.
   D. Inquiries of the entity’s attorney concerning contingent liabilities.

Answer (B) is correct. (CPA, adapted)

**REQUIRED:** The inquiries or analytical procedures ordinarily performed during a review.

**DISCUSSION:** These procedures include inquiries to members of management with responsibility for financial and accounting matters that concern, among other things, unusual or complex situations that may affect the financial statements.

Answer (A) is incorrect. A review does not contemplate gathering corroborating evidence. Answer (C) is incorrect. A review does not contemplate the application of procedures concerning assertions regarding continued existence. Answer (D) is incorrect. AR 400 90 does not require that inquiries be made of the entity’s attorney.
16. Which of the following statements is true concerning both an engagement to compile and an engagement to review a nonissuer’s financial statements?

A. The accountant does not contemplate obtaining an understanding of internal control.
B. The accountant must be independent in fact and appearance.
C. The accountant expresses no assurance on the financial statements.
D. The accountant should obtain written management representations.

Answer (A) is correct. *(CPA, adapted)*

**REQUIRED:** The true statement about both compilations and reviews.

**DISCUSSION:** A compilation requires the accountant to have a general understanding of the business, the form of its accounting records, the qualifications of its personnel, the accounting basis of the statements, and their form and content. A review is a higher level of service that also requires the accountant to perform inquiry and analytical procedures as a basis for providing limited assurance. However, neither a compilation nor a review contemplates obtaining an understanding of internal control and assessing control risk.

Answer (B) is incorrect. An accountant must be independent with respect to a review but not a compilation engagement. Answer (C) is incorrect. No expression of assurance is contemplated in a compilation, but limited assurance is expressed as a result of a review. Answer (D) is incorrect. Written management representations are required in a review but not in a compilation engagement.

17. Financial statements of a nonissuer that have been reviewed by an accountant should be accompanied by a report stating that a review

A. Provides only limited assurance that the financial statements are fairly presented.
B. Includes examining, on a test basis, information that is the representation of management.
C. Consists principally of inquiries of company personnel and analytical procedures applied to financial data.
D. Does not contemplate obtaining corroborating evidential matter or applying certain other procedures ordinarily performed during an audit.

Answer (C) is correct. *(CPA, adapted)*

**REQUIRED:** The statement included in the review report.

**DISCUSSION:** According to AR 100, "Financial statements reviewed by an accountant should be accompanied by a report stating that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, and, accordingly, no such opinion is expressed."

Answer (B) is incorrect. A review does not contemplate obtaining an understanding of internal control. Answer (C) is incorrect. The report does not contain an explicit description of the difference between an audit and a review. Answer (D) is incorrect. The report does not mention a compilation.

18. An accountant who reviews the financial statements of a nonissuer should issue a report stating that a review

A. Is substantially less in scope than an audit.
B. Provides limited assurance that internal control is functioning as designed.
C. Provides only limited assurance that the financial statements are fairly presented.
D. Is substantially more in scope than a compilation.

Answer (A) is correct. *(CPA, adapted)*

**REQUIRED:** The statement included in an accountant’s review report.

**DISCUSSION:** According to AR 100, "Financial statements reviewed by an accountant should be accompanied by a report stating that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, and, accordingly, no such opinion is expressed."

Answer (B) is incorrect. A review does not contemplate obtaining an understanding of internal control. Answer (C) is incorrect. The report should state that the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with GAAP. Answer (D) is incorrect. The report does not mention a compilation.
19. Financial statements of a nonissuer that have been reviewed by an accountant should be accompanied by a report stating that

A. The scope of the inquiry and analytical procedures performed by the accountant has not been restricted.
B. All information included in the financial statements is the representation of the management of the entity.
C. A review includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
D. A review is greater in scope than a compilation, the objective of which is to present financial statements that are free of material misstatements.

Answer (B) is correct. (CPA, adapted)

REQUIRED: The true statement included in an accountant’s report based upon a review.

DISCUSSION: According to AR 400 90, the first paragraph of the standard review report should include a statement that all information included in the financial statements is the representation of the management (owners) of the entity. State, “Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.”

Answer (A) is incorrect. The report does not need to state that the scope of the inquiry and analytical procedures performed by the accountant has not been restricted. Answer (C) is incorrect. An audit, not a review, includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Answer (D) is incorrect. The standard review report does not mention a compilation.

20. An accountant’s standard report on a review of the financial statements of a nonissuer should state that the accountant

A. Does not express an opinion or any form of limited assurance.
B. Is not aware of any material modifications that should be made to the financial statements for them to conform with GAAP.
C. Obtained reasonable assurance about whether the financial statements are free of material misstatement.
D. Examined evidence, on a test basis, supporting the amounts and disclosures in the financial statements.

Answer (B) is correct. (CPA, adapted)

REQUIRED: The statement in a standard review report.

DISCUSSION: The standard review report states, “Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles generally accepted in the United States of America” (AR 400 90).

Answer (A) is incorrect. A review provides limited assurance. Answer (C) is incorrect. An audit provides reasonable assurance about whether the financial statements are free of material misstatement. Answer (D) is incorrect. An audit involves gathering sufficient appropriate evidence to support the amounts and disclosures in the financial statements.

22. Baker, CPA, was engaged to review the financial statements of Hall Company, a nonissuer. Evidence came to Baker’s attention that indicated substantial doubt as to Hall’s ability to continue as a going concern. The principal conditions and events that caused the substantial doubt have been fully disclosed in the notes to Hall’s financial statements. Which of the following statements best describes Baker’s reporting responsibility concerning this matter?

A. Baker is not required to modify the accountant’s review report.
B. Baker is not permitted to modify the accountant’s review report.
C. Baker should issue an accountant’s compilation report instead of a review report.
D. Baker should express a qualified opinion in the accountant’s review report.

Answer (B) is incorrect. The accountant may emphasize a matter. Answer (C) is incorrect. If appropriate procedures have been applied and the accountant has formed a conclusion, a review report may be issued. Answer (D) is incorrect. Unless an audit has been conducted, an opinion may not be expressed.
23. Baker, CPA, was engaged to review the financial statements of Hall Company, a nonissuer. During the engagement, Baker uncovered a complex scheme involving client illegal acts and fraud that materially affect Hall's financial statements. If Baker believes that modification of the standard review report is not adequate to indicate the deficiencies in the financial statements, Baker should answer (C) is correct. 

**REQUIRED:** The auditor action when modification of the standard review report is not adequate to indicate deficiencies in the financial statements.

**DISCUSSION:** Baker should withdraw from the engagement. The SSARSs do not provide for an adverse review report.

A. Disclaim an opinion.
B. Express an adverse opinion.
C. Withdraw from the engagement.
D. Express a qualified opinion.

24. Each page of a nonissuer's financial statements reviewed by an accountant should include the following reference:

A. See Accountant's Review Report.
B. Reviewed, No Accountant's Assurance Expressed.
C. See Accompanying Accountant's Notes.
D. Reviewed, No Material Modifications Required.

Answer (A) is correct.

**REQUIRED:** The reference on each page of a nonissuer's financial statements reviewed by an accountant.

**DISCUSSION:** Each page should include a reference such as "See Accountant's Review Report" (AR 100 90). Answer (B) is incorrect. A review report ordinarily expresses limited assurance. Answer (C) is incorrect. Notes are part of the financial statements, not the accountant's report. Answer (D) is incorrect. The review report states that the accountant is not aware of any modifications that should be made other than those indicated in the report.

Pages 598 through 600, 18.3, questions 26-27, 32: These questions were edited as a direct result of the SSARS update.

26. An accountant began an audit of the financial statements of a nonissuer and was asked to change the engagement to a review because of a restriction on the scope of the audit. If there is reasonable justification for the change, the review report should include reference to the

<table>
<thead>
<tr>
<th>Original Engagement</th>
<th>That Was Agreed To</th>
<th>Scope Limitation</th>
<th>That Caused the</th>
<th>Changed Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>B. Yes</td>
<td>Yes</td>
<td>No</td>
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</tr>
<tr>
<td>C. No</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>D. No</td>
<td>No</td>
<td>No</td>
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</table>

Answer (D) is correct.

**REQUIRED:** The item(s), if any, that should be referred to in the accountant's review report.

**DISCUSSION:** AR 100 90 states that if the accountant concludes, based upon his/her professional judgment, that there is reasonable justification to change the engagement and if (s)he complies with the standards applicable to the changed engagement, (s)he should issue an appropriate review report. The report should not include reference to the original engagement, any auditing procedures that may have been performed, or scope limitations that resulted in the changed engagement.
27. Davis, CPA, accepted an engagement to audit the financial statements of Tech Resources, a nonissuer. Before the completion of the audit, Tech requested Davis to change the engagement to a compilation of financial statements. Before Davis agrees to change the engagement, Davis is required to consider the

<table>
<thead>
<tr>
<th>Additional Audit Effort Necessary to Complete the Audit</th>
<th>Reason Given for Tech's Request</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. No</td>
<td>No</td>
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<tr>
<td>B. Yes</td>
<td>Yes</td>
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<tr>
<td>C. Yes</td>
<td>No</td>
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<tr>
<td>D. No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Answer (B) is correct. (CPA, adapted)

**REQUIRED:** The matter(s) considered before changing an engagement from an audit to a compilation.

**DISCUSSION:** Before an accountant who was engaged to perform an audit in accordance with GAAS agrees to change the engagement to a compilation or a review, at least the following should be considered: (1) the reason given for the client's request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by circumstances; (2) the additional audit effort required to complete the audit; and (3) the estimated additional cost to complete the audit (AR 400 80).

32. Kell engaged March, CPA, to submit to Kell a written personal financial plan containing unaudited personal financial statements. March anticipates omitting certain disclosures required by GAAP because the engagement's sole purpose is to assist Kell in developing a personal financial plan. For March to be exempt from complying with the requirements of AR 400 80, *Compilation and Review of Financial Statements*, Kell is required to agree that the

A. Financial statements will not be presented in comparative form with those of the prior period.
B. Omitted disclosures required by GAAP are not material.
C. Financial statements will not be disclosed to a non-CPA financial planner.
D. Financial statements will not be used to obtain credit.

Answer (D) is correct. (CPA, adapted)

**REQUIRED:** The circumstances under which an accountant may depart from the requirements of AR 400 80.

**DISCUSSION:** AR 600, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*, states that an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of AR 400 80 if the accountant (1) has an understanding with the client about its use and (2) has no reason to believe that the financial statements will be used to obtain credit or for any other purpose except developing the financial plan.

Answer (A) is incorrect. The financial statements may be presented in comparative form. Answer (B) is incorrect. The exemption is appropriate regardless of the disclosures and their materiality level. Answer (C) is incorrect. The financial plan is likely to be used by the client and potentially a financial planner.
The following draft of a review engagement report has been submitted by a staff member to the manager for review. The
table below contains the comments by the manager about the draft. Indicate by selecting from the list provided whether
the original draft is correct, the audit manager’s comment is correct, or if neither is correct.

We have reviewed the accompanying balance sheet of ABC Company as of December 31, Year 1, and the related
statements of income, retained earnings, and cash flows for the year then ended. A review includes primarily
making inquiries of company management. A review is substantially less in scope than an audit, the objective of
which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express
such an opinion.

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

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review
Services issued by the Auditing Standards Board. Those standards require us to perform procedures to obtain
limited assurance that there are no material modifications that should be made to the financial statements. We
believe that the results of our procedures provide a reasonable basis for our report.

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

<table>
<thead>
<tr>
<th>Manager’s Comments</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The report should not refer to the statement of cash flows because a nonissuer does not prepare this statement.</td>
<td></td>
</tr>
<tr>
<td>2. The second sentence in the first paragraph also should refer to analytical procedures.</td>
<td></td>
</tr>
<tr>
<td>3. The third sentence in the first paragraph should state that the review is “substantially greater in scope...”</td>
<td></td>
</tr>
<tr>
<td>4. The last sentence in the first paragraph should be deleted.</td>
<td></td>
</tr>
<tr>
<td>5. The second paragraph should state that the CPA is responsible for the preparation of the fair presentation of the financial statements.</td>
<td></td>
</tr>
<tr>
<td>6. The first sentence in the third paragraph should state that the accounting and review standards are established by the federal government.</td>
<td></td>
</tr>
<tr>
<td>7. The fourth paragraph should state “Based on our study...” rather than “Based on our examination...”</td>
<td></td>
</tr>
<tr>
<td>8. The fourth paragraph should state, “conformity with auditing principles” rather than “conformity with accounting principles.”</td>
<td></td>
</tr>
</tbody>
</table>

Choices
A) The original draft is correct.
B) The manager’s comment is correct.
C) Neither the original draft nor the manager’s comment is correct.
The following report was drafted on October 25, Year 1, by Major, CPA, at the completion of the engagement to compile the financial statements of Ajax Company for the year ended September 30, Year 1. Ajax is a nonpublic entity in which Major’s child has a material direct financial interest. Ajax decided to omit substantially all of the disclosures required by GAAP because the financial statements will be for management’s use only. The statement of cash flows was also omitted because management does not believe it to be a useful financial statement.

Select from the list provided to indicate which sentences in Major’s report on the compiled financial statements contain a deficiency.

<table>
<thead>
<tr>
<th>To the Board of Directors of Ajax Company:</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I have compiled the accompanying financial statements of Ajax Company as of September 30, Year 1, and for the year then ended.</td>
<td></td>
</tr>
<tr>
<td>2. I have not audited or reviewed the accompanying financial statements.</td>
<td></td>
</tr>
<tr>
<td>3. Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.</td>
<td></td>
</tr>
<tr>
<td>4. My responsibility is to conduct the compilation in accordance with accepted standards issued by the American Institute of Certified Public Accountants.</td>
<td></td>
</tr>
<tr>
<td>5. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.</td>
<td></td>
</tr>
<tr>
<td>6. Management has elected to omit substantially all of the disclosures (and the statement of cash flows) required by generally accepted accounting principles.</td>
<td></td>
</tr>
<tr>
<td>7. If the omitted disclosures and statements were included in the financial statements, they might influence the user’s conclusions about the company’s financial position, results of operations, and cash flows.</td>
<td></td>
</tr>
<tr>
<td>8. I am not independent with respect to Ajax Company.</td>
<td></td>
</tr>
<tr>
<td>9. This lack of independence is due to my child’s ownership of a material direct financial interest in Ajax Company.</td>
<td></td>
</tr>
<tr>
<td>10. This report is intended solely for the information and use of the Board of Directors and management of Ajax Company and should not be used for any other purpose.</td>
<td></td>
</tr>
</tbody>
</table>

Major, CPA
October 25, Year 1

**Choices**

- Deficient
- Not deficient

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Page 608, 18.5 Practice Simulation, Tab 4: This tab was rewritten as a direct result of the SSARS update. Please replace the existing tab with this one.

Compilation Report  Authoritative Literature  Help
Jordan & Stone, CPAs, audited the financial statements of Tech Co., a nonissuer, for the year ended December 31, Year 1, and expressed an unqualified opinion. For the year ended December 31, Year 2, Tech issued comparative financial statements. Jordan & Stone reviewed Tech’s Year 2 financial statements and Kent, an assistant on the engagement, drafted the accountants’ review report below. Land, the engagement supervisor, decided not to reissue the prior year’s auditor’s report, but instructed Kent to include a separate paragraph in the current year’s review report describing the responsibility assumed for the prior year’s audited financial statements. This is an appropriate reporting procedure.

Land reviewed Kent’s draft presented below and indicated in the Supervisor’s Review Notes below that there were 13 deficiencies in Kent’s draft.

We have reviewed and audited the accompanying balance sheets of Tech Co. as of December 31, Year 1 and Year 2, and the related statements of income, retained earnings, and cash flows for the years then ended. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

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

Based on our study, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. Because of inherent limitations in a review engagement, this report is intended for the information of management and should not be used for any other purpose.

The financial statements for the year ended December 31, Year 1, were audited by us, and our report was dated March 2, Year 2. We have no responsibility for updating that report for events and circumstances occurring after that date.

March 1, Year 3

Jordan and Stone, CPAs

Items 1. through 13. represent deficiencies noted by Land. For each deficiency, indicate whether Land is correct or incorrect in the criticism of Kent’s draft.

<table>
<thead>
<tr>
<th>Supervisor’s Review Notes</th>
<th>Answer</th>
<th>List</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. There should be no reference to the prior year’s audited financial statements in the first (introductory) paragraph.</td>
<td></td>
<td>A) Correct</td>
</tr>
<tr>
<td>2. All the current-year basic financial statements are not properly identified in the first (introductory) paragraph.</td>
<td></td>
<td>B) Incorrect</td>
</tr>
<tr>
<td>3. A statement should be included in the first paragraph stating that a review includes primarily applying analytical procedures to management’s financial data and making inquiries of company management.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. In the second paragraph, “fair presentation” should be replaced with “accurate presentation.”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. There should be no reference to the American Institute of Certified Public Accountants in the first (introductory) paragraph.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. The phrase “to obtain significant assurance” in the third paragraph should be replaced with “to obtain limited assurance.”</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7. The last sentence in the fourth paragraph that begins, "We believe that the results ..." should be deleted.

8. The fourth paragraph should begin, "Based on our review..."

9. There should be no restriction on the distribution of the accountant's review report in the fourth paragraph.

10. There should be no reference to "material modifications" in the fourth paragraph.

11. There should be an indication of the type of opinion expressed on the prior year's audited financial statements in the fourth (separate) paragraph.

12. There should be an indication that no auditing procedures were performed after the date of the report on the prior year’s financial statements in the fourth (separate) paragraph.

13. There should be no reference to "updating that report for events and circumstances occurring after that date" in the fourth (separate) paragraph.

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Page 610, Unofficial Answers, 2. Review Report I: These answers have been rewritten as a result of the SSARS update.

2. Review Report I (8 Gradable Items)

1. A) The original draft is correct. A nonissuer is required to present a statement of cash flows, and the review report should refer to the statement.

2. B) The manager's comment is correct. A review includes inquiries of company personnel and analytical procedures applied to financial data.

3. A) The original draft is correct. The draft is correct as stated.

4. A) The original draft is correct. The draft is correct as stated. A disclaimer is required.

5. A) The original draft is correct. Management is responsible for fair presentation.

6. C) Neither the original draft nor the manager's comment is correct. The report should state that the SSARSs are issued by the American Institute of Certified Public Accountants.

7. C) Neither the original draft nor the manager's comment is correct. The paragraph should begin, "Based on our review..."

8. A) The original draft is correct. The draft is correct as stated.
Page 611, Unofficial Answers, 3. Reviews and Compilations: The following revisions have been made as a result of the SSARS update.

3. **Reviews and Compilations** (15 Gradable Items)

1. A) Procedure is contemplated; C) Procedure is contemplated. According to both AR 400, *Compilation and Review of Financial Statements* 90 and AR 80, an accountant should establish with the entity an understanding regarding the nature and limitation of the services to be performed.

2. A) Procedure is contemplated; D) Procedure is not contemplated. When performing a review, an accountant “must make inquiries of management and, when deemed appropriate, other company personnel.” When performing a compilation, “the accountant is not required to make inquiries” (AR 100).

3. B) Procedure is not contemplated; D) Procedure is not contemplated. “A successor accountant is not required to communicate with a predecessor accountant in connection with acceptance of a compilation or review engagement, but (s)he may decide to do so” (AR 400).

4. A) Procedure is contemplated; C) Procedure is contemplated. The accountant should have a level of knowledge of the accounting principles and practices of the entity’s industry and an understanding of the entity’s business to provide the accountant, through inquiries and analytical procedures, with the reasonable basis for limited assurance sought in a review. The accountant should have a level of knowledge of the accounting principles and practices of the entity’s industry to enable the accountant to compile statements that are appropriate in form for an entity in that industry. The accountant should have an understanding of the entity’s business to provide the accountant, through inquiries and analytical procedures, with the reasonable basis for limited assurance sought in a review.

5. B) Procedure is not contemplated; D) Procedure is not contemplated. Auditors, not accountants performing review engagements or compilation services, assess fraud risk.

6. A) Procedure is contemplated; D) Procedure is not contemplated. In performing review services, an accountant is required to apply analytical procedures to the financial statements, make inquiries of management, and obtain representations from management. In a compilation engagement, an accountant prepares the financial statements of an entity. No assurance is provided; therefore, no analytical procedures are required.

7. B) Procedure is not contemplated; D) Procedure is not contemplated. An auditor should obtain an understanding of internal control. Neither a compilation nor a review contemplates that the accountant will obtain an understanding of internal control.

8. B) Procedure is not contemplated; D) Procedure is not contemplated. During a review engagement, an accountant is required to obtain written representations from management but not to obtain corroborating evidence. Compilation services do not contemplate performing procedures performed in a review, for example, inquiries about information provided by the entity.

9. A) Procedure is contemplated; D) Procedure is not contemplated. When performing a review of an entity’s financial statements, the accountant must obtain written representations from responsible and knowledgeable members of management (e.g., the CEO or the CFO or the equivalent). However, compilation services do not contemplate performing procedures performed in a review, for example, obtaining written representations from management.

10. A) Procedure is contemplated; D) Procedure is not contemplated. When reviewing an entity’s financial statements, the accountant must perform analytical procedures, which include comparing recorded amounts or ratios with expectations developed by the accountant. Compilation services do not contemplate performing procedures performed in a review, for example, applying analytical procedures.

11. B) Procedure is not contemplated; D) Procedure is not contemplated. The accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed. The understanding should provide that the accountant will inform the appropriate level of management of any illegal acts that come to his/her attention, unless they are clearly inconsequential (AR 100).

12. A) Procedure is contemplated; D) Procedure is not contemplated. When performing a review, an accountant “must make inquiries of management and, when deemed appropriate, other company personnel.” When performing a compilation, “the accountant is not required to make inquiries” (AR 100).

13. B) Procedure is not contemplated; D) Procedure is not contemplated. Given proper disclosure, inconsistencies in the application of accounting principles do not normally result in modification of the standard report.
14. B) Procedure is not contemplated; D) Procedure is not contemplated. The form of the financial statements is not important. For example, the copy may be on a computer disk, fax, or other medium.

15. B) Procedure is not contemplated; D) Procedure is not contemplated. In providing compilation and review services, the accountant provides no positive assurance about the financial statements taken as a whole. Hence, these services do not contemplate assessing the entity’s ability to continue as a going concern.

Page 612, Unofficial Answers, 4. Compilation Report: The following revisions have been made as a result of the SSARS update.

4. **Compilation Report** (10 Gradable Items)
   1. Deficient. The report should identify the financial statements that were compiled.
   2. Deficient. A compilation provides no assurance. The report should state that “I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.”
   3. Not deficient. A compilation is limited to presenting information in the form of financial statements that are the representation of management. Management’s responsibility should be stated in the report.
   4. Deficient. The report should state that the auditor has not audited or reviewed the financial statements. The compilation should be conducted in accordance with Statements on Standards for Accounting and Review Services.
   5. Not deficient. The appropriate statement is that the auditor has not audited or reviewed the accompanying financial statements and, accordingly, does not express an opinion or any other form of assurance on them. The objective of a compilation should be stated in the report.
   6. Not deficient. It is appropriate to state that management has elected to omit the notes and the statement of cash flows.
   7. Not deficient. It is appropriate to state that the disclosures, if made, could influence the financial statement users.
   8. Not deficient. It is appropriate in a compilation report to indicate lack of independence.
   9. Not deficient. It is appropriate to note the reason for lack of independence in a compilation report.
   10. Deficient. The accountant need not limit the use of the report.

Page 612, Unofficial Answers, 5. Review Report II: The following revisions have been made as a result of the SSARS update.

5. **Review Report II** (13 Gradable Items)
   1. A) Correct.
   2. B) Incorrect.
   4. B) Incorrect.
   5. B) Incorrect.
   7. A B) Correct Incorrect.
   8. A) Correct.
   11. A) Correct.