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

Your AUD materials have undergone some extensive changes due to pronouncements that become testable on July 1, 2017. Instead of producing a change document that details every edit, which would be quite extensive and possibly confusing, we have included short changes as indicated in the NOTE above, but for the longer subunit changes, we reproduced the edited subunits in their entirety in this book update. Please see below for a summary of the major changes, and then use the rest of this PDF to update the relevant pages in your book. These pages include the changes for outlines and questions.

We have substantially updated Study Unit 1 to include the new clarified attestation standards and changes to the assurance services committee focus.

- Subunit 1 was completely rewritten to incorporate the new clarified attestation standards. The three basic services were included in this subunit -- examination, review, and agreed-upon procedures. This subunit is reproduced in its entirety in this book update.
- Subunit 3 was updated to move all the clarified attestation standards material relating to specific subject matter, e.g., prospective financial information and pro forma financial information, to Study Unit 19.
- Subunit 4 was revised to reflect changes in the activities of the AICPA's Assurance Services Executive Committee. This subunit is reproduced in its entirety in this book update.

Study Unit 9, Subunit 4, includes changes to reflect SSAE AT-C 320, Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting

Study Unit 19, Subunits 1-4, were revised in accordance with SSARS 23 to extend the scope beyond unaudited financial statements. In addition, Subunit 5 was updated for SSARS 22 (AR-C 120), and Subunits 6-8 were updated for the clarified SSAEs. These provide the guidance for specific types of engagements. This study unit is reproduced in its entirety in this book update.
Study Unit 1 – Engagement Responsibilities

Page 9, Introduction paragraph 2:

The 11 attestation standards address many practitioner services. Most are considered in more detail in other study units. The following are the relevant pronouncements for these services and the associated acronyms:

- **Statements on Standards for Accounting and Review Services (SSARSs)** are codified as AR-C 60, 70, 80, and 90. They are issued by the AICPA’s Accounting and Review Services Committee (ARSC). They apply to preparations, compilations, and reviews of nonissuers’ financial statements.

- **Statements on Auditing Standards (SASs)** are codified using the AU-C prefix. They are issued by the Auditing Standards Board. They apply to audits of nonissuers’ financial statements.

- **Statements on Standards for Attestation Engagements (SSAEs)** have been clarified and codified. The comprehensive sections are AT-C 105, 205, 210, and 215. They are issued by the AICPA’s Auditing Standards Board (ASB) or other AICPA designated body. They apply to examinations, reviews, and agreed-upon procedures engagements for subject matter other than traditional financial statements.

- The **Sarbanes-Oxley Act of 2002 (SOX)** is federal legislation that has had a dramatic effect on the engagement responsibilities of public accounting firms. The act created the **Public Company Accounting Oversight Board (PCAOB)**. The PCAOB’s standards apply to audits of issuers by public accounting firms. Issuers and entities are required to file with the SEC.

Pages 9-12, Subunit 1.1: The outline and questions for this whole subunit have been replaced with the following eight pages:
The material in Subunit 1.1 is an overview of the SSAEs and the three kinds of engagements covered. Study Unit 19 addresses attestation engagements for specific subject matter (e.g., prospective financial information, compliance, etc.). Those subunits include additional requirements and report content. Reading this overview may be helpful as you study that material.

1.1 ATTEST ENGAGEMENTS

1. Nature of an Attest Engagement
   a. Attestation standards apply when the CPA is engaged to issue or issues a practitioner’s examination, review, or agreed-upon procedures report on (1) subject matter or (2) an assertion about subject matter that is the responsibility of another party. The subject matter of an attestation engagement can take many forms (in contrast with an audit of financial statements). The following are examples:
      1) Historical or prospective performance (e.g., performance measures)
      2) Physical characteristics (e.g., square footage of facilities)
      3) Historical events (e.g., the price of a group of goods at a certain date)
      4) Analyses (e.g., breakeven analyses)
      5) Systems and processes (e.g., internal control issues)
      6) Behavior (e.g., corporate governance compliance with human resource practices)
   b. The three types of attestation engagements are (1) examinations, (2) reviews, and (3) agreed-upon procedures. The basic concept of an attestation engagement is that a party who is not the practitioner makes an assertion about whether the subject matter is measured or evaluated in accordance with suitable criteria. The practitioner gathers evidence and reports on the subject matter or assertion.
      1) The party who engages the practitioner is the engaging party.
      2) The party responsible for the assertion is the responsible party. Most often the engaging party is the responsible party. For example, management as the responsible party engages the practitioner to report on subject matter.

2. Preconditions for an Attestation Engagement
   a. The practitioner should be independent unless required by law or regulation to accept the engagement and report.
   b. The practitioner should determine that
      1) The responsible party is a party other than the practitioner and takes responsibility for the subject matter.
      2) The engagement has the following characteristics:
         a) The subject matter is appropriate.
         b) The criteria to be applied in the preparation and evaluation of the subject matter are suitable and will be available to the intended users.
         c) The practitioner expects to obtain the evidence needed for the opinion, conclusion, or findings.
         d) A written report includes the opinion, conclusion, or findings in appropriate form.

3. Professional Expectations
   a. The engagement should be planned and performed with appropriate professional skepticism.
   b. The practitioner should exercise professional judgment in all aspects of the engagement.
4. **Comparison of the Three Types of Engagements**
   
a. The table below is an overview of the issues related to the different attestation engagements.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Examination</th>
<th>Review</th>
<th>Agreed-Upon Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence required?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Written assertion required?</td>
<td>Yes, if engaging party is responsible party</td>
<td>Yes, if engaging party is responsible party</td>
<td>No, but lack of assertion disclosed in report</td>
</tr>
<tr>
<td>Type of report</td>
<td>Opinion</td>
<td>Whether a material modification is needed</td>
<td>Findings of specific procedures</td>
</tr>
<tr>
<td>Level of assurance</td>
<td>High</td>
<td>Limited</td>
<td>Findings of specific procedures</td>
</tr>
<tr>
<td>Amount of evidence</td>
<td>Sufficient and appropriate to support opinion</td>
<td>Sufficient and appropriate to support conclusion</td>
<td>Findings of specific procedures</td>
</tr>
<tr>
<td>Documentation (working papers) required?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

5. **Failure to Provide a Written Assertion**
   
a. An engaging party may **not** be the responsible party, for example, a company seeking to acquire another company. The table below summarizes the consequences of the responsible party’s refusal to provide a written assertion in each type of attestation engagement.

<table>
<thead>
<tr>
<th>Identity of Responsible Party</th>
<th>Examination</th>
<th>Review</th>
<th>Agreed-Upon Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engaging party is the responsible party</td>
<td>Withdraw from engagement</td>
<td>Withdraw from engagement</td>
<td>Disclose refusal in report</td>
</tr>
<tr>
<td>Engaging party is <strong>not</strong> the responsible party</td>
<td>Disclose refusal in report</td>
<td>Disclose refusal in report</td>
<td>Disclose refusal in report</td>
</tr>
</tbody>
</table>

6. **Engagement Documentation**
   
a. The practitioner should prepare engagement documentation on a timely basis. It should suffice to (1) describe the nature, timing, and extent of the procedures performed and (2) identify the specific items or matters tested. It also should state (1) who performed the work, (2) the date such work was completed, (3) who reviewed the work, and (4) the date and extent of such review.

   b. The practitioner should assemble documentation in an engagement file. The administrative process of assembling the final engagement file should be completed no later than 60 days after the report release date.

   c. After the documentation completion date, the practitioner should not delete or discard any documentation before the end of its retention period. However, in some cases items may be added.

7. **Examination Engagements (AT-C 205)**
   
a. An **attestation examination** is similar to an audit. In an audit, the auditor expresses an opinion on the fairness of the financial statements. In an examination, the independent practitioner expresses an opinion on (1) the fairness of an assertion by the responsible party or (2) whether the subject matter (not in the form of general-purpose financial statements) is in accordance with (or based on) criteria. That subject matter can take many forms if it can be measured and evaluated against **reasonable criteria**. Examples include the following:

   1) Financial data, such as whether breakeven analysis for ABC Company is fairly presented for year 20X1

   2) Value data, such as the fairly stated value of plant assets owned by ABC Company at year end 20X1
3) Compliance data, such as whether ABC Company complied with lending covenants for 20X1

b. The service is **inappropriate** for subject matter if **no measurable criteria** exist or the criteria are subjective. Examples include the following:
   1) ABC Company is the best company in the industry.
   2) ABC Company has made progress in becoming solvent.

c. The **objectives** of an examination engagement are to
   1) **Obtain reasonable assurance** about whether the subject matter as measured or evaluated based on the criteria is free from material misstatement
   2) **Express an opinion** in a written report about whether (a) the subject matter is in accordance with (or based on) the criteria, in all material respects, or (b) the responsible party's assertion is fairly stated, in all material respects
   3) **Communicate** further as required (e.g., to those charged with governance)

d. **Differences between Examinations and Audits**
   1) In general, similar requirements apply to examinations and audits. This similarity should be considered when studying the auditing requirements.
   2) An examination differs from an audit in the following significant ways:
      a) A request for a written assertion from the responsible party is required. (In an audit, the assertions are deemed to be embodied in the financial statements.)
      b) The subject matter is not historical financial statements.
      c) The engaging party may not be the responsible party.
      d) Use of the report is more likely to be restricted.
      e) Use of analytical procedures is less likely because the subject matter may be qualitative, not quantitative.

e. **Performance of an Engagement**
   1) **Materiality** should be considered when (a) planning and performing the examination and (b) determining the nature, timing, and extent of procedures.
   2) **Professional judgment** should be used to determine the nature, timing, and extent of examination procedures. Those procedures should provide sufficient, appropriate evidence to support the practitioner's opinion.
   3) The practitioner should focus on matters subject to increased risks and material misstatement.

f. **Evaluating the Results of Procedures**
   1) The practitioner should **accumulate misstatements** identified during the engagement, if not clearly trivial, to determine the effect on the opinion.

g. **Written Representations**
   1) The **responsible party** should provide a written representations letter addressed to the practitioner.

h. **Forming the Opinion and Preparing the Report**
   1) The practitioner should form an opinion about whether (a) the subject matter is in accordance with (or based on) the criteria, in all material respects, or (b) the assertion is fairly stated, in all material respects. The practitioner should evaluate
      a) The conclusion about the sufficiency and appropriateness of evidence and
      b) Whether uncorrected misstatements are material, individually or in the aggregate.
2) The report should be in writing. It should express an opinion (a) on a written assertion or (b) directly on the subject matter. If the report is on the assertion, it should accompany the report or be clearly stated in the report.

3) The following is an example of a paragraph expressing an opinion directly on the subject matter:

**EXAMPLE**

In our opinion, [identify the subject matter, e.g., the schedule of investment returns of XYZ Company for the year ended December 31, 20XX], is presented in accordance with [identify the criteria, e.g., the ABC criteria set forth in Note 1], in all material respects.

4) The report should include an alert, in a separate paragraph, that restricts the use of the report when the criteria used to evaluate the subject matter are appropriate only for a limited number of parties.

8. **Review Engagements (AT-C 210)**

a. An attestation review is similar to a review of financial statements under the AICPA’s SSARSs. In a financial statement review, the practitioner provides limited assurance about whether any material modifications should be made to the financial statements for them to be in accordance with the financial reporting framework (e.g., GAAP). In an attestation review, the independent practitioner provides limited assurance about whether any material modifications should be made to subject matter for it to conform to specific criteria.

1) That subject matter can take many forms if it can be measured and evaluated against reasonable criteria.

b. **Differences between Attest Reviews and Financial Statement Reviews**

1) In general, similar requirements apply to attestation reviews and financial statement reviews. This similarity should be considered when studying the review requirements.

2) An attestation review differs from a financial statement review in the following significant ways:

a) The practitioner requests a written assertion from the responsible party. (Assertions are deemed to be embodied in reviewed financial statements.)

b) The subject matter is not historical financial statements.

c) The engaging party may not be the responsible party.

d) Use of the report is more likely to be restricted.

e) Use of analytical procedures is less likely because the subject matter may be qualitative, not quantitative.

c. **The objectives** of an engagement to review financial statements are to

1) **Obtain limited assurance** about whether any material modifications should be made to the subject matter for it to be in accordance with (or based on) the criteria.

2) **Express a conclusion** in a written report about whether the practitioner is aware of any material modifications that should be made to (a) the subject matter for it to be in accordance with (or based on) the criteria or (b) the responsible party’s assertion for it to be fairly stated.

3) **Communicate** further as required (e.g., to those charged with governance).
d. **Performance of an Engagement**

1) **Materiality** should be considered when (a) planning and performing the review and (b) determining the nature, timing, and extent of procedures.

2) **Professional judgment** should be used to determine the nature, timing, and extent of review procedures.

3) **Analytical procedures and inquiries** should be performed. Other procedures are performed as needed to accumulate evidence supporting limited assurance regarding the objectives of the review.

   a) Analytical procedures may not be possible when the subject matter is qualitative, not quantitative. Other procedures, in addition to inquiries, should be performed to provide equivalent review evidence.

4) The practitioner should focus on matters subject to increased risks and material misstatement.

e. **Evaluating the Results of Review Procedures**

1) **Misstatements** identified during the engagement should be accumulated unless clearly trivial. If the subject matter is materially misstated or review evidence sufficient for limited assurance cannot be obtained, the implications for the report’s conclusion should be considered. These implications may include modifying the conclusion.

e. **Written Representations**

1) The **responsible party** should provide a letter of representations addressed to the practitioner.

g. **Forming the Conclusion and Preparing the Report**

1) A conclusion should be formed about awareness of any material modifications that should be made to (a) the subject matter for it to be in accordance with (or based on) the criteria or (b) the responsible party’s assertion for it to be fairly stated. The practitioner should evaluate (a) the conclusion about the sufficiency and appropriateness of the review evidence obtained, (b) whether uncorrected misstatements are material, and (c) whether the presentation of the subject matter or assertion is misleading.

2) The report should (a) be in writing and (b) state the conclusion on the written assertion or directly on the subject matter. If the report is on the assertion, the assertion should accompany the report or be clearly stated in the report.

3) The following is an example of a conclusion directly on the subject matter:

```
EXAMPLE
Based on our review, we are not aware of any material modifications that should be made to [identify the subject matter, e.g., the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX] in order for it be in accordance with [identify the criteria, e.g., the ABC criteria set forth in Note 1].
```

h. The report should include an alert, in a separate paragraph, that restricts the use of the report when the criteria used to evaluate the subject matter are appropriate only for a limited number of parties.

g. **Agreed-Upon Procedures Engagements (AT-C 215)**

a. In an agreed-upon procedures engagement, a practitioner issues a report in the form of procedures and findings, not an opinion or conclusion. It is based on (1) specific agreed-upon procedures, (2) applied to subject matter, and (3) for use by specified parties. The specified parties determine the procedures they believe to be appropriate. The needs of specified parties vary, so the nature, timing, and extent of the procedures vary. Consequently, the specified parties assume responsibility for the sufficiency of the procedures because they best understand their needs.
b. The **objectives** of the engagement are to

1) **Apply to the subject matter procedures** established by specified parties who are responsible for the sufficiency of the procedures,

2) **Issue a written report** that describes the procedures applied and the findings, and

3) **Communicate** further as required (e.g., to those charged with governance).

c. **Preconditions of an Agreed-Upon Procedures Engagement**

1) In addition to the general requirements for all attestation engagements, the independent practitioner should determine the following or *not accept* the engagement:

   a) The specified parties agree on the procedures to be performed.
   
   b) The specified parties take responsibility for the sufficiency of the procedures.
   
   c) The procedures can be performed and reported on in accordance with AT-C 215.
   
   d) The procedures are expected to result in reasonably consistent findings using the criteria.
   
   e) The practitioner agrees to apply any materiality limits established by the specified parties.
   
   f) Use of the report is restricted to the specified parties.

d. **Procedures to Be Performed**

1) Procedures should *not* be agreed on that are subject to interpretation. To avoid ambiguity, they should be associated with **actions** to be taken. The description of the procedures should be sufficiently specific so that a reader can understand their nature and extent. The following are examples of acceptable descriptions of actions:

   a) Inspect
   
   b) Confirm
   
   c) Compare
   
   d) Agree
   
   e) Trace
   
   f) Inquire
   
   g) Recalculate
   
   h) Observe
   
   i) Mathematically check

2) The descriptions of actions below (unless defined to indicate the nature, timing, and extent of the associated procedures) generally are *not* acceptable. Their meanings are uncertain or not sufficiently precise.

   a) Note
   
   b) Review
   
   c) General review
   
   d) Limited review
   
   e) Evaluate
   
   f) Analyze
   
   g) Check
   
   h) Test
   
   i) Interpret
   
   j) Verify
   
   k) Examine

3) Evidence obtained from the agreed-upon procedures should provide a reasonable basis for the reported findings. Additional procedures need *not* be performed outside the scope of the engagement.
e. **Written Representations**

   1) The practitioner should request from the responsible party written representations in the form of a letter addressed to the practitioner.

f. **The Practitioner's Report**

   1) A written report with the results of applying agreed-upon procedures to specific subject matter should be in the form of procedures and findings. (a) All findings should be reported, (b) any agreed materiality limits should be described, and (c) vague or ambiguous language should be avoided.

   2) The report should not express an opinion or conclusion about whether the subject matter is in accordance with (or based on) the criteria or whether the assertion is fairly stated.

   3) Because the report is for specified parties, the report should include an alert, in a separate paragraph, that restricts the use of the report.

   4) The following is an example of an agreed-upon procedures report:

```
EXAMPLE

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Audit Committees and Managements of ABC, Inc., and XYZ Fund:

We have performed the procedures enumerated below on the statement of investment performance statistics, which were agreed to by the audit committees and managements of ABC, Inc., and XYZ Fund on 12/1/X1. XYZ Fund's management is responsible for the statement of investment performance statistics. The sufficiency of these procedures is solely the responsibilities of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

[Include paragraphs to enumerate procedures and findings.]

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the audit committees and managements of ABC, Inc., and XYZ Fund, and is not intended to be, and should not be, used by anyone other than the specified parties.

Signature <--------------------- May be signed, typed, or printed
Practitioner’s address <----- City and state
Date <-------------------------- Date engagement completed
```

Stop and review! You have completed the outline for this subunit. Study multiple-choice questions 1 through 3 on page 10.
QUESTIONS

1.1 Attest Engagements

1. Which of the following is a conceptual difference between the attestation standards and generally accepted auditing standards?
   
   A. The attestation standards provide a framework for the attest function beyond historical financial statements.
   
   B. The requirement that the practitioner be independent in mental attitude is omitted from the attestation standards.
   
   C. The attestation standards do not permit an attest engagement to be part of a business acquisition study or a feasibility study.
   
   D. The requirement to obtain a management representation letter in an audit is omitted from the attestation standards.

   Answer (A) is correct.
   
   REQUIRED: The conceptual difference between the attestation standards and GAAS.
   
   DISCUSSION: Two principal conceptual differences exist between the attestation standards and GAAS. First, the attestation standards provide a framework for the attest function beyond historical financial statements. Second, the attestation standards accommodate the growing number of attest services in which the practitioner expresses assurance below the level that is expressed for the traditional audit (an opinion).
   
   Answer (B) is incorrect. In any attest engagement, the practitioner must be independent in mental attitude.
   
   Answer (C) is incorrect. Attestation services may be provided in conjunction with other services provided to clients.
   
   Answer (D) is incorrect. The attestation standards and GAAS require that written management representations be obtained.

2. In performing an attest engagement, a CPA typically
   
   A. Supplies litigation support services.
   
   B. Assesses the risks of material misstatement of financial information.
   
   C. Reports on subject matter other than traditional financial statements.
   
   D. Provides management consulting advice.

   Answer (C) is correct.
   
   REQUIRED: The CPA’s usual task in an attest engagement.
   
   DISCUSSION: When a CPA in the practice of public accounting performs an attest engagement, the engagement is subject to the attestation standards. An attest engagement is one in which a practitioner is engaged to issue or does issue an examination, a review, or an agreed-upon procedures report on subject matter, or an assertion about the subject matter, that is the responsibility of another party.
   
   Answer (A) is incorrect. Litigation support services are consulting services.
   
   Answer (B) is incorrect. Not all attest engagements address financial subject matter. Furthermore, the assessment may not be at a low level.
   
   Answer (D) is incorrect. An attest engagement results in a report on subject matter or on an assertion about the subject matter.

3. Which of the following components is appropriate in a practitioner’s report on the results of applying agreed-upon procedures?
   
   A. A list of the procedures performed, as agreed to by the specified parties identified in the report.
   
   B. A statement that management is responsible for expressing an opinion.
   
   C. A title that includes the phrase “independent audit.”
   
   D. A statement that the report is unrestricted in its use.

   Answer (A) is correct.
   
   REQUIRED: The component appropriate for an agreed-upon procedures report.
   
   DISCUSSION: In an agreed-upon procedures engagement, the practitioner is engaged to report on the results of performing specific procedures agreed upon with specified parties. The report lists the procedures performed and provides the results of those procedures but provides no form of positive or negative assurance.
   
   Answer (B) is incorrect. No opinion is expressed in an agreed-upon procedures report.
   
   Answer (C) is incorrect. The report does not refer to an audit.
   
   Answer (D) is incorrect. An agreed-upon procedures report should have a statement restricting its use to the specified parties who agreed upon the procedures to be performed.
Page 13, Subunit 1.2, item 1.b.:

b. The new standards significantly converge with, but are not identical to, the equivalent International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board. Thus, each clarified statement includes an analysis of significant differences from the equivalent ISA.

c. The clarified statements have 3-digit identification codes that correspond to those of the ISAs. Moreover, each code has the temporary prefix AU-C (C stands for means “clarified”). The prefix will become AU at the AICPA’s discretion. An example is AU-C 210, Terms of Engagement, which will become AU 210 at some time in the future.

d. The ASB’s standards apply to audits of nonissuers (nonpublic companies). Audits of issuers (public companies required to file with the Securities and Exchange Commission) are regulated by the PCAOB. The Sarbanes-Oxley Act of 2002 authorized the PCAOB to establish auditing and related professional practice standards to be used by registered public accounting firms. The PCAOB reorganized their auditing standards in 2015. Each standard has an “AS” prefix followed by a 4-digit number. For example, AS 1005, Independence, describes the requirements of independence for auditors of issuers. However, in most cases, the PCAOB standards are similar to current ASB standards. Any significant differences are identified.

d. Government Auditing Standards (the Yellow Book issued by the Government Accountability Office) applies to audits of the federal government’s programs. The GAO requires governmental auditors to follow the ASB standards, except as otherwise provided in the Yellow Book. Audits under the Single Audit Act also follow the Office of Budget and Management (OMB) Audit Requirements for Federal Awards (2 CFR 200).

Page 16, Subunit 1.3, item 1.b.1):

1) An accountant also may prepare other historical financial information but not prospective financial information.

Page 16, Subunit 1.3, item 1.c.1):

1) An accountant also may compile prospective, pro forma, and other historical financial information.

Page 16, Subunit 1.3, item 1.d.1):

1) An accountant also may review other historical financial information excluding pro forma financial information.

NOTE: References to financial statements should be read to include other information within the scope of a given service.

Pages 17-18, Subunit 1.3, items 2.-7. and NOTE: Items 2.-7. were removed because they are covered more fully in Study Unit 19. The update also revises the NOTE at the end of the subunit.

NOTE: The topics in this subunit Engagements under SSARSs are covered fully in Study Unit 19.
6. North Co., a nonissuer, asked its tax accountant, King, a CPA in public practice, to generate North's interim financial statements on King's personal computer when King prepared North's quarterly tax return. King should not prepare these financial statements to North unless, as a minimum, King complies with the provisions of

A. Statements on Standards for Accounting and Review Services.
B. Statements on Standards for Unaudited Financial Services.
C. Statements on Standards for Consulting Services.
D. Statements on Standards for Attestation Engagements.

Answer (A) is correct.

REQUIRED: The standards appropriate for an accountant who generates interim financial statements.

DISCUSSION: The Statements on Standards for Accounting and Review Services apply to preparations, compilations, and reviews performed by practitioners. The AICPA bylaws designate the Accounting and Review Services Committee as the senior technical committee authorized to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of a nonissuer.

Answer (B) is incorrect. These standards do not exist. Answer (C) is incorrect. The practitioner is providing compilation services, not consulting services. Answer (D) is incorrect. Statements on Standards for Attestation Engagements are appropriate whenever the practitioner is engaged in providing attestation services.

A compilation, however, provides no assurance.

Page 26, Subunit 1.3, Question 7: The original question was moved to Subunit 1, and the question below was added as new Question 7.

7. Which of the following services, if any, may an accountant who is not independent provide?

A. Preparations and compilations but not reviews.
B. Reviews but not preparations.
C. Both compilations and reviews.
D. No services.

Answer (A) is correct.

REQUIRED: The service(s), if any, that may be provided by an accountant who is not independent.

DISCUSSION: A compilation provides no assurance. Thus, the accountant need not be independent. The report describes the compilation service and disclaims an opinion or conclusion or any other form of assurance on the financial statements. The accountant discloses a lack of independence in the report. An accountant who prepares financial statements need not be, or determine whether (s)he is, independent. Also, no report is required.
Page 26, Subunit 1.3, Questions 8 and 9: The original questions were moved to Study Unit 19, Subunit 6, for use online only, and the following questions were added to Subunit 1.3 as new Questions 8 and 9.

8. For which of the SSARS services will the practitioner issue a report?

<table>
<thead>
<tr>
<th>Preparation</th>
<th>Compilation</th>
<th>Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>B. Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>C. No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>D. No</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Answer (C) is correct.

REQUIRED: The service for which the practitioner issues a report.

DISCUSSION: The practitioner does not issue a report for a preparation service for a nonissuer. This service does not (1) provide assurance or (2) require a determination of whether the practitioner is independent. However, reports are issued for a compilation and a review service. A compilation provides no assurance but requires a determination of independence. A review requires independence.

Answer (A) is incorrect. The practitioner does not issue a report for a preparation service for a nonissuer. However, reports are issued for a compilation and a review service.

Answer (B) is incorrect. The practitioner does not issue a report for a preparation service for a nonissuer. However, reports are issued for a compilation and a review service.

Answer (D) is incorrect. The practitioner does not issue a report for a preparation service for a nonissuer. However, reports are issued for a compilation and a review service.

9. When an accountant performs a review of the financial statements of a nonissuer, (s)he

A. Seeks to establish a reasonable basis for providing limited assurances about the statements.

B. Need not issue a report unless (s)he considers the statements misleading.

C. Must perform tests of the details of transactions and balances.

D. Is primarily concerned with the entity’s internal controls, especially its accounting system.

Answer (A) is correct.

REQUIRED: The true statement about an accountant who performs a review.

DISCUSSION: To obtain a reasonable basis for the expression of limited assurance, the accountant must apply analytical procedures, make inquiries of management and other entity personnel, and obtain written representations from management. Accordingly, the 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 accounting principles generally accepted in the United States of America.”

Answer (B) is incorrect. An accountant must issue a report even if the statements are not misleading. Answer (C) is incorrect. Review procedures consist mostly of inquiries, analytical procedures, and obtaining written representations from management. Answer (D) is incorrect. A review does not require that an understanding of internal control be obtained.

Pages 18-20, Subunit 1.4: The outline and questions for this whole subunit have been replaced with the following two pages:
1.4 ASSURANCE SERVICES

1. Assurance services are practitioner-provided engagements that enhance the quality, relevance, and usefulness of information or its context for decision makers.

2. The AICPA Assurance Services Executive Committee’s (ASEC) mission is to (a) identify and prioritize emerging trends and market needs for assurance and (b) develop related assurance methodology guidance and tools as needed. Relevant information might relate to a variety of needs. For example,
   a. Potential investors might require information about past financial results to assess an entity’s ability to generate future profits.
   b. Potential creditors might need to know whether liquidity is sufficient to service debt.
   c. Potential trading partners might want information about the effectiveness of an entity’s processes and the quality of its goods or services.

3. Projects of the ASEC include guidance to
   a. Assist CPAs requested to provide assurance on XBRL-related documents
   b. Auditors on how to use data analytics to improve the audit process
   c. Auditors of service organizations on the evaluation of controls

   NOTE: This project is called System and Organization Controls (SOC).

4. Assurance services do not include consulting services. Although they have similarities because they are delivered using a common body of knowledge and skills, they differ in two key ways. Assurance services
   a. Focus on improving information rather than providing advice
   b. Usually involve one party’s intention to monitor another (often within the same entity), not the two-party arrangement common in consulting engagements

5. The following table compares traditional attest, assurance, and consulting services:

<table>
<thead>
<tr>
<th></th>
<th>Attestation</th>
<th>Assurance</th>
<th>Consulting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result</td>
<td>Written conclusion about subject matter or a written assertion of another party</td>
<td>Better information for decision makers. Increased confidence in information.</td>
<td>Recommendations based on the objectives of the engagement</td>
</tr>
<tr>
<td>Objective</td>
<td>Reliable information</td>
<td>Better decision making</td>
<td>Better outcomes</td>
</tr>
<tr>
<td>Parties to the engagement</td>
<td>Not specified, but generally three (the third party is usually external). CPA is generally paid by the preparer.</td>
<td>Generally three (although the other two might be employed by the same entity). CPA is paid by the preparer or user.</td>
<td>Generally two. CPA is paid by the user.</td>
</tr>
<tr>
<td>Independence</td>
<td>Required by standards</td>
<td>Depends on nature of service</td>
<td>Not required</td>
</tr>
<tr>
<td>Substance of CPA output</td>
<td>Conformity with established or stated criteria</td>
<td>Assurance about reliability or relevance of information. Criteria might be established, stated, or unstated.</td>
<td>Recommendations, not measured against formal criteria</td>
</tr>
<tr>
<td>Form of CPA output</td>
<td>Written</td>
<td>Some form of communication</td>
<td>Oral or written</td>
</tr>
<tr>
<td>Critical information</td>
<td>Asseter</td>
<td>Either CPA or asseter</td>
<td>CPA</td>
</tr>
<tr>
<td>developed by</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information content</td>
<td>Preparer (client)</td>
<td>Preparer, CPA, or user</td>
<td>CPA</td>
</tr>
<tr>
<td>determined by</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of assurance</td>
<td>Examination, review, or results of agreed-upon procedures</td>
<td>Flexible. For example, it might be compilation level, explicit assurance about usefulness of the information for intended purpose, or implicit from the CPA’s involvement.</td>
<td>No explicit assurance</td>
</tr>
</tbody>
</table>

Stop and review! You have completed the outline for this subunit. Study multiple-choice questions 10 through 13 on beginning page 15.
QUESTIONS

1.4 Assurance Services

10. Assurance services are best described as
   A. Services designed for the improvement of operations, resulting in better outcomes.
   B. Independent professional services that improve the quality of information, or its context, for decision makers.
   C. The assembly of financial statements based on information and assumptions of a responsible party.
   D. Services designed to express an opinion on historical financial statements based on the results of an audit.

   Answer (B) is correct.

   REQUIRED: The description of assurance services.
   DISCUSSION: The AICPA defines assurance services as “independent professional services that improve the quality of information, or its context, for decision makers.” Assurance services encompass audit and other attestation services but also include nonstandard services. Assurance services do not encompass consulting services.

11. The objective of assurance services is to
   A. Provide more timely information.
   B. Enhance decision making.
   C. Compare internal information and policies to those of other firms.
   D. Improve the firm’s outcomes.

   Answer (B) is correct.

   REQUIRED: The objective of assurance services.
   DISCUSSION: The main objective of assurance services, as stated by the AICPA, is to provide information that assists in better decision making. Assurance services encompass audit and other attestation services but also include nonstandard services. Assurance services do not encompass consulting services.

12. A business faces many threats. Which of the following is not a business risk specifically identified by the AICPA as one to which risk assessment assurance services apply?
   A. Technological risk.
   B. Strategic environment risk.
   C. Information risk.
   D. Risk of deterioration of market-based assets.

   Answer (A) is correct.

   REQUIRED: The business risk to which risk assessment assurance services do not apply.
   DISCUSSION: Managing business risk is an important aspect of the long-term success of an entity. The AICPA has identified strategic environment risk, operating environment risk, information risk, and the risk of deterioration of market-based assets as potential risks of a business.

   Answer (B) is incorrect. Strategic environment risk is a business risk specifically identified by the AICPA. Answer (C) is incorrect. Information risk is a business risk specifically identified by the AICPA. Answer (D) is incorrect. Risk of deterioration of market-based assets is a business risk specifically identified by the AICPA.

13. Assurance services differ from consulting services in that they

<table>
<thead>
<tr>
<th>Focus on Providing Advice</th>
<th>Involve Monitoring of One Party by Another</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>B. Yes</td>
<td>No</td>
</tr>
<tr>
<td>C. No</td>
<td>Yes</td>
</tr>
<tr>
<td>D. No</td>
<td>No</td>
</tr>
</tbody>
</table>

   Answer (C) is correct.

   REQUIRED: The way(s) in which assurance services differ from consulting services.
   DISCUSSION: Assurance services encompass attestation services but not consulting services. Assurance services differ from consulting services in two ways: (1) They focus on improving information rather than providing advice, and (2) they usually involve situations in which one party wants to monitor another rather than the two-party arrangements common in consulting engagements.
Study Unit 9 – Internal Control Communications and Reports

Page 191, Introduction:

This study unit applies to various auditor communications and reports, most involving internal control. During the conduct of an audit, the auditor may observe control deficiencies. If so, the auditor has a responsibility to communicate significant deficiencies and material weaknesses to management and those charged with governance (AU-C 265, Communicating Internal Control Related Matters Identified in an Audit). Other issues relating to the audit also should be communicated to management and those charged with governance. Some of these issues are closely related to internal control, but others relate to the audit in general (AU-C 260, The Auditor’s Communication With Those Charged With Governance, and AS 1301, Communications with Audit Committees). Public companies (issuers) are required by the Sarbanes-Oxley Act of 2002 to provide a management assessment of the effectiveness of internal control over financial reporting in annual reports. The PCAOB’s AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, provides guidance on the required process and reporting. For example, it requires the auditor to express an opinion, or disclaim an opinion, on internal control. For other entities (nonissuers), the CPA may be engaged to provide a report on the effectiveness of an entity’s internal control over financial reporting. This service and the reports issued are governed by the AICPA’s AU-C 940, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements. The CPA may be either a user or a preparer of a report prepared in accordance with AU-C 402, Audit Considerations Relating to an Entity Using a Service Organization, and AT-801 AT-C 320, Reporting on Controls at a Service Organization Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting. Such a report may affect the user CPA’s assessment of a client’s risks of material misstatement.

Page 207, Subunit 9.4, Background:

<table>
<thead>
<tr>
<th>Background</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT-801, Reporting on Controls at a Service Organization AT-C 320, Reporting on an Examination of Controls at a Service Organization Relevant to user Entities’ Internal Control Over Financial Reporting, provides guidance for a service auditor’s reports on a service organization’s internal control. AU-C 402, Audit Considerations Relating to an Entity Using a Service Organization, provides guidance to a user auditor when the user entity uses a service organization. An auditor is required to obtain an understanding of controls in all cases and to determine that they are effective if they are relied on. These requirements apply whether the relevant controls are the client’s or the service provider’s. For example, the client may outsource payroll processing, with certain controls over payroll maintained by the service provider. The auditor should consider the controls at the payroll processing service in the audit of the client. The user auditor may directly consider the controls at the service organization or use a service auditor’s report to obtain the understanding and, if appropriate, determine whether the controls are effective.</td>
</tr>
</tbody>
</table>

Page 209, Subunit 9.4, item 9.:

9. **Responsibilities of a Service Auditor (AT-801 AT-C 320)**
   a. The service auditor should be independent of the service organization but not necessarily of each user organization.
   b. As in other audit attest examination engagements, the service auditor should consider the following issues and apply the applicable standards or make the appropriate judgments:
      1) Whether to accept a new client or continue with existing clients. Accepting or continuing an engagement only if the preconditions are met.
2) Whether to agree to a request for a change in the scope of the engagement
3) Use of appropriate materiality judgments in planning and performing the audit
   - Requesting a written assertion and withdrawing (if possible) if it is not provided
4) Consideration of the cause and nature of any discovered deviations
   Assessing the criteria used by management to describe its system and evaluate control design and
effectiveness
5) Whether to use the work of an internal auditor
   Understanding the system and assessing the risks of material misstatement
6) The need to read other information contained in management's description of the system
   Materiality of the information reported and used in planning and performing the examination
7) Effects of subsequent events after the date of the service auditor's report
   The cause and nature of any discovered deviations
8) The need to document the engagement
   Use of the work of an internal auditor or another practitioner
9) Reading other information contained in management's description of the system
10) Effects of subsequent events after the date of the service auditor's report
11) Obtaining written representations
12) Documenting the engagement

Page 210, Subunit 9.4, item 10.b.:

b. Content of a Service Auditor's Type 1 Report
   1) A title that includes the word “independent”
   2) An addressee
   3) Identification of management’s description of the system and the criteria in its assertion
   4) A reference to management's assertion and a statement of management’s responsibility for the controls
   5) A statement that the service auditor’s responsibility is to express an opinion on the fairness of management’s description of the system and the suitability of the design of the controls in meeting the objectives
   6) A statement that the report examination was conducted in accordance with the AICPA’s attestation standards
   7) A statement that the service auditor did not test the effectiveness of the controls
   8) Statements about the scope of the service auditor's procedures
   9) A statement about the inherent limitations of controls
   10) An opinion on whether, in all material respects, based on the criteria, management’s description of the system is fairly stated presented and whether the controls are suitably designed
   11) A statement
   An alert, in a separate paragraph, restricting the use of the report to management of the service organization, user entities, and auditors of user entities
   12) The date of the report
   13) The name, city, and state of the service auditor
20. Computer Services Company (CSC) processes payroll transactions for schools. Drake, CPA, is engaged to report on CSC’s description of the controls implemented and their design as of a specific date. These controls are relevant to the schools’ internal control, so Drake’s report will be useful in providing the schools’ independent auditors with information necessary to plan their audits. Drake’s report expressing an opinion on CSC’s controls implemented as of a specific date should contain a(n)

A. Description of the scope and nature of Drake’s procedures.
B. Statement that CSC’s management has disclosed to Drake all design deficiencies of which it is aware.
C. Opinion on the operating effectiveness of CSC’s controls.
D. Paragraph indicating the basis for Drake’s assessment of the risks of material misstatement.

Answer (A) is correct.

REQUIRED: The item in a service auditor’s report on controls implemented.

DISCUSSION: The report expressing an opinion on the description of controls implemented and their design (type 1 report) includes (1) a title that includes the word independent; (2) an addressee; (3) identification of management’s description of the system and the criteria in its assertion; (4) a reference to management’s assertion and a statement of management’s responsibility for the controls; (5) a statement that the service auditor’s responsibility is to express an opinion on the fairness of management’s description of the system and the suitability of the design of the controls in meeting the objectives; (6) a statement that the report examination was conducted in accordance with the AICPA attestation standards; (7) a statement that the service auditor did not test the effectiveness of the controls; (8) statements about the scope of the service auditor’s procedures; (9) a statement about the inherent limitations of controls; (10) an opinion on whether, in all material respects, based on the criteria, management’s description of the system is fairly stated presented and whether the controls are suitably designed; (11) a statement an alert, in a separate paragraph, restricting the use of the report to management of the service organization and user entities; (12) the date of the report; and (13) the name, city, and state of the service auditor (AT-C 320).

Answer (B) is incorrect. The service auditor need not state whether management has disclosed all design deficiencies. Answer (C) is incorrect. A type 1 report does not contain an opinion on operating effectiveness. Answer (D) is incorrect. A type 1 report contains no assessment of RMMs, only an opinion on the description of the controls implemented and their design.

Study Unit 18 – Related Reporting Topics

Page 375, Subunit 18.2, item 3.e. and f.:

e. The auditor should not comment on pro forma financial information unless (s)he has acquired the appropriate level of knowledge. This topic is covered by AT 401, which is discussed in AT-C 310 in Study Unit 19, Subunit 7.

f. To apply agreed-upon procedures to a forecast and comment on it in a comfort letter, the auditor must perform compilation procedures for a forecast and should attach the report to the comfort letter. Negative assurance on the results of such procedures may not be provided. Forecasts are covered by AT 301, which is discussed AT-C 305 in Study Unit 19, Subunit 6.

Study Unit 19 – Preparation, Compilation, Review, and Attestation Engagements

Pages 399-436: The outlines and questions for this whole study unit have been replaced with the following 38 pages:
Statements on Standards for Accounting and Review Services (SSARSs) are issued by the AICPA’s Accounting and Review Services Committee (ARSC). SSARSs apply to engagements involving nonissuers, defined as all entities that are not issuers. Issuers (also known as public companies) (1) have registered securities under Section 12 of the Securities Exchange Act of 1934, (2) are required to report under Section 15 of that act, or (3) have filed a registration statement under the Securities Act of 1933 that has not become effective. The clarified SSARSs state (1) general principles for all engagements within their scope and (2) specific guidance for preparation, compilation, and review services.


SSARS No. 23, *Omnibus Statement on Standards for Accounting and Review Services*, applies SSARSs not only to unaudited financial statements but also to other subject matter. It is testable in July 2017.

Subunits 19.5 through 19.8 cover various clarified Statements on Standards for Attestation Engagements (SSAEs) that are testable in July 2017. (But AT-C 395 has been renumbered, not clarified.) They relate to services performed for a nonissuer that are not those for traditional historical financial statements.

19.1 **GENERAL PRINCIPLES FOR SSARSs ENGAGEMENTS (AR-C 60)**

1. **Introduction**
   a. The guidance for these engagements provides for three levels of service: (1) **preparations**, (2) **compilations**, and (3) **reviews**.
b. The following table compares (1) preparation, compilation, and review services performed on unaudited financial statements with (2) an audit:

<table>
<thead>
<tr>
<th>Issue</th>
<th>Preparation</th>
<th>Compilation</th>
<th>Review</th>
<th>Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is assurance provided?</td>
<td>No</td>
<td>No</td>
<td>Limited</td>
<td>Positive</td>
</tr>
<tr>
<td>Is an engagement letter required?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Is a report required?</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>May the financial statements be released to users other than management?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>May the financial statements omit disclosures (notes)?</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

[1] No determination of independence is required.
[2] A determination of independence is required. The report is modified if the accountant is not independent.

Refer to the above table after you have studied each of the first 4 subunits in this study unit. It provides a quick review before taking the exam. The Auditing and Attestation part of the CPA exam includes many questions on preparation, compilation, and review topics. These subunits are especially important.

2. Accountant’s Responsibilities
   a. SSARSs should be adapted when services are performed on other historical or prospective financial information. (But prospective financial information may not be reviewed.)
      1) If legal requirements differ from SSARSs, an engagement only in accordance with those requirements may not comply with SSARSs.
   b. The CPA firm is required to have an effective quality control system. It should include a monitoring process designed to provide reasonable assurance that quality control policies and procedures are relevant, adequate, and operating effectively.
      1) All members of the engagement team should (a) comply with relevant ethical requirements and (b) exercise professional judgment and due care.
   c. Accountants must comply with unconditional requirements in all cases. They should comply with presumptively mandatory requirements except in rare circumstances.
      1) The justification for a departure from the latter must be documented, including how the intent of the requirement was met.

3. Acceptance and Continuation of Engagements
   a. As a precondition for accepting an engagement, the accountant should
      1) Determine whether professional competence is obtainable
      2) Determine whether the financial reporting framework selected by management is acceptable
      3) Obtain the agreement of management that it acknowledges and understands its responsibilities for
         a) Selecting the financial reporting framework
b) Designing, implementing, and maintaining internal control over financial reporting (unless the accountant is responsible)
c) Preventing and detecting fraud
d) Ensuring that the entity complies with laws and regulations
e) Maintaining accurate and complete records, documents, explanations, and other information
f) Providing access to all relevant information, including (1) information for preparing and fairly presenting the financial statements, (2) information the accountant may request, and (3) access to persons within the entity

b. An engagement should **not** be accepted if the accountant
   1) Believes that relevant ethical requirements will not be satisfied,
   2) Has a preliminary understanding that information needed to perform the engagement is likely to be unavailable or unreliable, or
   3) Doubts management’s integrity.

c. The agreement on the **terms** of the engagement should be documented in an engagement letter or other suitable form of written agreement between the parties (Study Unit 3, Subunit 1, details pre-engagement acceptance activities.) The following are terms common to such engagements:
   1) The objective(s) of the engagement
   2) The responsibilities of management
   3) The responsibilities of the accountant, which, in a preparation, do not include issuing a report
   4) The limitations of the engagement
   5) That the engagement cannot be relied upon to disclose fraud, error, or noncompliance with laws or regulations
   6) Identification of the applicable reporting framework

4. The Financial Reporting Framework
   a. The applicable financial reporting framework (**framework**) includes accounting standards issued by an authorized or recognized standards-setting organization, e.g., the FASB, GASB, or IASB.
   b. The following are **special purpose** reporting frameworks:
      1) The **cash** basis is (a) a basis used to record cash receipts and disbursements or (b) a modification of the cash basis having substantial support. An example of a modification is recording depreciation on fixed assets, a substantial, noncash item.
      2) The **tax** basis is used to file the entity’s tax return for the period covered by the financial statements.
      3) A **regulatory** basis is used to comply with the requirements or financial reporting provisions of a regulator with jurisdiction over the entity. An example is a basis that insurers use in accordance with the accounting practices prescribed or permitted by a state insurance commission.
      4) A **contractual** basis is used to comply with an agreement between the entity and one or more third parties other than the accountant.
      5) An **other** basis has a definite set of logical, reasonable criteria that is applied to all material items appearing in the financial statements.

   c. Special purpose frameworks other than the contractual basis are known as other comprehensive bases of accounting (**OCBOAs**).
d. Many frameworks intend that financial statements provide information about the
(1) financial position, (2) financial performance, (3) cash flows, and (4) related
disclosures of an entity. For some frameworks, a single financial statement and
the related notes might be a complete set. The following are examples of a single
financial statement, each of which includes related notes:

1) Balance sheet
2) Statement of income or statement of operations
3) Statement of retained earnings
4) Statement of cash flows
5) Statement of assets and liabilities
6) Statement of changes in owners’ equity
7) Statement of revenue and expenses
8) Statement of operations by product lines

e. An accountant may (1) prepare, (2) compile, or (3) review a complete set of financial
statements or a single statement (for example, a balance sheet). The statements may
be for an annual or other period, depending on management’s needs.

1) However, presenting statements other than for an annual period comparatively
with statements for an annual period usually is inappropriate.

5. Understanding the Framework

a. AR-C 60 does not specifically address the understanding of the framework. But the
guidance for a preparation, compilation, or review includes the following:

1) The accountant should obtain an understanding of (a) the framework and (b) the
significant accounting policies adopted by management.
2) The accountant is not prevented from accepting an engagement for an entity
in an industry in which (s)he has no previous experience. The understanding
may be obtained, for example, by consulting (a) AICPA guides, (b) industry
publications, (c) financial statements of other entities in the industry,
(d) textbooks and periodicals, (e) appropriate continuing professional education,
or (f) individuals knowledgeable about the industry.
3) Obtaining the understanding satisfies the accountant’s ethical obligation to
perform services with competence (due care).

Stop and review! You have completed the outline for this subunit. Study multiple-choice
questions 1 through 3 beginning on page 50.

19.2 PREPARATION OF FINANCIAL STATEMENTS (AR-C 70)

1. Nature of the Engagement

a. This nonattest service does not require the accountant to determine whether (s)he is
independent of the entity. Furthermore, the accountant need not

1) Verify the accuracy or completeness of management’s information,
2) Obtain evidence to express an opinion or a conclusion, or
3) Report on the financial statements.

b. The accountant’s engagement cannot be relied upon to identify or disclose

1) Misstatements, including those caused by fraud or error, or
2) Wrongdoing (e.g., fraud) or noncompliance with laws and regulations.
c. The preparation service
   1) Allows accountants to use software to generate client financial statements and release them to the client or third parties without attaching a report
   2) May be in conjunction with other services, such as a preparation of interim statements followed by an audit, review, or compilation of fiscal year-end statements

2. Applicability
   a. AR-C 70 applies when an accountant in public practice is engaged to prepare financial statements or prospective financial information. It does not apply when the accountant merely assists in their preparation (a bookkeeping service).
   b. This guidance also applies, adapted as necessary, to the preparation of other historical financial information.
   c. Thus, AR-C 70 applies to preparation of
      1) Statements for use by the entity or a third party;
      2) Statements prior to an audit or review by another accountant;
      3) Statements to be presented with the entity’s tax return;
      4) Personal financial statements for presentation with a financial plan;
      5) Single statements, such as a balance sheet or income statement, or statements that omit substantially all disclosures;
      6) Statements outside of an accounting software system using the information in a general ledger; and
      7) Other historical financial information, including
         a) Specified elements, accounts, or items of a statement, such as schedules of rents, royalties, profit participations, or provisions for income taxes;
         b) Supplementary information, whether or not such information is required;
         c) Required supplementary information; and
         d) Pro forma financial information.
   d. AR-C 70 does not apply if other AICPA pronouncements govern. Thus, it does not apply when an accountant prepares financial statements and is engaged to audit, review, or compile them. AR-C 70 also does not apply when the statements are prepared
      1) Solely for submission to taxing authorities
      2) For inclusion in written personal financial plans prepared by the accountant
      3) In conjunction with litigation services involving pending or potential legal or regulatory proceedings
      4) In conjunction with business valuation services
   e. When an accountant does not prepare financial statements, AR-C 70 does not apply if the accountant merely
      1) Maintains depreciation schedules;
      2) Prepares or proposes certain adjustments, such as those applicable to deferred income taxes, depreciation, or leases;
      3) Drafts financial statement notes; or
      4) Enters general ledger transactions or processes payments (general bookkeeping) in an accounting software system.
3. Independence
   a. The accountant need not be independent of the client, and no disclosure is necessary if independence is impaired.
   b. An accountant’s name is not required to be identified or associated with the financial statements, but the accountant may be identified if a disclaimer is attached.

4. Preparation Procedures
   a. The accountant should prepare the financial statements using the records, documents, explanations, and other information provided by management.
   b. The accountant need not (1) verify the accuracy or completeness of the information provided by management or (2) otherwise gather evidence to report (e.g., express an opinion or conclusion) on the fairness of the statements.
   c. The accountant may become aware that the information, including significant judgments, used to prepare the statements is incomplete, inaccurate, or otherwise unsatisfactory.
      1) In these circumstances, the accountant should request that management provide additional or corrected information.
      2) After discussions with management, the accountant may prepare statements that contain a known departure from the framework (including inadequate disclosure) and then should disclose the material misstatement.
         a) A misstatement may result from fraud or error. A misstatement is the difference between (1) the amount, classification, presentation, or disclosure of an item and (2) the amount, etc., required for the item to be fairly presented.
      3) A known departure ordinarily is disclosed in the notes but may be stated on the face of the statements.

   EXAMPLE
   Accounting principles generally accepted in the United States of America require that land be stated at cost. Management reported land at appraised value. If land had been reported at cost, the balances of the land account and shareholders’ equity would have decreased by $500,000.

4) Statements may be prepared that omit substantially all disclosures required by the framework unless the intent is to mislead users. The accountant should disclose the omission on the face of the statements or in a note.
   a) If some disclosures are omitted, the statements should include a heading such as “Selected Information—Substantially All Disclosures Required by [the applicable financial reporting framework] Are Not Included.”

5) An accountant should not prepare prospective financial information that omits (1) the summary of significant assumptions or (2), for a projection, (a) hypothetical assumptions or (b) the limitations of the information.

   d. When preparing statements in accordance with a special purpose framework, for example, the cash basis, the accountant should describe the framework on the face of the statements or in a note.

   e. The accountant may assist management in making significant judgments. For example, the accountant may (1) advise management on alternative significant accounting policies or (2) help management with significant judgments about accounting estimates.
      1) But management should understand and accept responsibility for significant judgments after discussions with the accountant.
5. **Notation on the Financial Statements**
   a. A preparation provides no assurance on the financial statements, and the accountant should include on each page (including notes) a notation that **no assurance is provided**.
      1) The notation is intended to avoid misunderstanding by users of the accountant’s involvement, and the accountant’s name is not required to be included.
      2) An alternative notation is that the financial statements have not been subjected to an audit, review, or compilation engagement, and no assurance is provided on them.
         a) Similar wording also is acceptable.
      3) If the accountant is unable to include a notation on each page, (s)he should (a) issue a disclaimer clarifying that no assurance is provided, (b) perform a compilation engagement, or (c) withdraw.

   **EXAMPLE**
   The accompanying financial statements of XYZ Company as of and for the year ended December 31, 20XX, were not subjected to an audit, review, or compilation engagement by me (us) and, accordingly, I (we) do not express an opinion or a conclusion or provide any assurance on them.

   Signature of accounting firm or accountant, as appropriate  
   Accountant’s city and state  
   Date of the accountant’s preparation disclaimer

6. **Other Presentation Considerations**
   a. The accountant should modify the titles on the statements when they are not in accordance with GAAP. For example, if the tax basis is the applicable framework, “balance sheet” should be replaced with a title similar to “Statement of Assets, Liabilities, and Equity – Income Tax Basis.”
   b. When the statements do not include substantially all disclosures, the accountant should disclose the omission in the statements even though no accountant’s report is presented. The following is an example of an appropriate notation on the face of the financial statements:

   **EXAMPLE**
   Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared in accordance with the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user’s conclusions about the company’s assets, liabilities, equity, revenues, and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

   c. The accountant should **not** prepare financial statements that omit substantially all disclosures if the intent is to mislead users.

7. **Documentation**
   a. Documentation in connection with each preparation engagement should provide a clear understanding of the work performed and, at a minimum, include (1) the engagement letter and (2) a copy of the financial statements.
   b. Significant (1) consultations or (2) professional judgments made during the engagement may be documented.

Stop and review! You have completed the outline for this subunit. Study multiple-choice questions 4 though 7 beginning on page 51.
19.3 COMPILATION OF FINANCIAL STATEMENTS (AR-C 80)

1. Scope and Objective
   a. The guidance for a compilation of financial statements also applies to a compilation of:
      (1) prospective, (2) pro forma, or (3) other historical financial information.
   b. The objective of a compilation is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements without undertaking to obtain or provide any assurance on them. Unlike a preparation service, a compilation requires the accountant to:
      1) Determine whether (s)he is independent
      2) Report on the statements
      3) Disclose any lack of independence
      4) Associate his or her name with the statements (It is included in the report.)

2. Acceptance
   a. A compilation engagement should not be accepted unless the accountant obtains the agreement of management (typically in an engagement letter) that it acknowledges and understands its responsibility for:
      1) Preparing and fairly presenting financial statements and including all informative disclosures that are appropriate
      2) Including the accountant’s compilation report in any document containing financial statements if it indicates that the accountant has performed a compilation (unless a different understanding is reached)

3. Compilation Procedures
   a. The accountant should read the statements after obtaining an understanding of the framework and significant accounting policies.
   b. The accountant then considers whether the statements appear to be appropriate in form and free from obvious material misstatements.
   c. The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity.
      1) However, the accountant may have performed such inquiries or other procedures.
      2) The (a) results of any procedures, (b) knowledge from prior engagements, or (c) statements themselves may cause the accountant to become aware that information provided by management is incorrect, incomplete, or otherwise unsatisfactory.
         a) The accountant should bring such issues to the attention of management and request additional or corrected information.
   d. If the accountant becomes aware that (1) the statements do not adequately refer to or describe the framework, (2) revisions of the statements are required for them to be in accordance with the framework, or (3) the statements are otherwise misleading, the accountant should propose the appropriate revisions to management.
      1) For example, statements may be misleading if (a) the framework includes the assumption that the statements are prepared on the going concern basis and (b) uncertainties about the entity’s ability to do so are undisclosed.
         a) If the accountant becomes aware of such uncertainties, (s)he may suggest additional disclosures.
      2) But the existence of an adequately disclosed uncertainty does not require modification of the report.
e. The accountant should withdraw from the engagement and inform management of the reasons for withdrawing if

1) (S)he is unable to complete the engagement because management has failed to provide records, documents, explanations, or other information, including significant judgments, as requested, or

2) Management does not (a) make appropriate revisions proposed by the accountant or (b) disclose such departures in the statements, and the accountant determines not to disclose such departures in the compilation report.

f. When making withdrawal decisions, the accountant may wish to consult legal counsel.

g. Disclosure of items, such as an uncertainty, is not required in statements that omit substantially all disclosures required by the framework.

4. Compilation Reports

a. The accountant should prepare a written report to accompany the statements. The compilation report consists of one paragraph. It should

1) State that management (owners) is (are) responsible for the financial statements.

2) Identify the statements.

3) Identify the entity.

4) Specify the date or period covered by the statements.

5) State that the accountant performed the compilation engagement in accordance with SSARSs issued by the ARSC of the AICPA. (But the procedures performed and their results are not described in the report.)

6) State that the accountant (a) did not audit or review the statements and (b) was not required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, the accountant issues a disclaimer. (S)he does not express an opinion or a conclusion or provide any assurance on the statements.

7) Include a manual, printed, or digital signature of the accountant or the accountant’s firm.

8) Include the city and state where the accountant practices.

9) Include the date of the report, which should be the day that the accountant completed the required procedures.

b. The accountant’s written report may become unattached from the statements. Thus, (s)he may request that management refer on each page of the statements to the accountant’s written report. Examples are

1) “See Accountant’s Report.”

2) “See Accountant’s Compilation Report.”

EXAMPLE -- Standard Compilation Report

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements, and I (we) was (were) not required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion or a conclusion or provide any form of assurance on these financial statements.

Signature of accounting firm or accountant, as appropriate

Accountant’s city and state

Date of the accountant’s compilation disclaimer
c. Neither the report nor the paragraph (paragraphs in a modified report) has a heading.
d. An accountant should not issue a compilation report on prospective financial information that omits (1) the summary of **significant assumptions** or (2), for a projection, (a) hypothetical assumptions or (b) the limitations of the information.

  1) The report on prospective financial information should state that (a) the results may not be achieved and (b) the accountant need not update the report.

5. **Reporting on Statements Prepared Using a Special Purpose Framework**
   a. Unless the entity elects to omit substantially all disclosures, the accountant should modify the compilation report when the statements do **not** include
      1) A description of the special purpose framework, including a summary of significant accounting policies;
      2) An adequate description of how the special purpose framework materially differs from GAAP (but the effects of the differences need not be quantified); and
      3) Informative disclosures similar to those required by GAAP if the statements contain items that are the same as, or similar to, those in GAAP-based statements.
   b. The report should refer to management’s responsibility for determining that the framework is acceptable. If a regulatory or contractual basis of accounting is used, the report also should describe the purpose for which the statements are prepared or refer to a note that contains that information.
   c. The report should include a **separate paragraph** that (1) indicates that the statements are prepared in accordance with the special purpose framework, (2) refers to the note to the statements that describes the framework (if applicable), and (3) states that the framework is a basis of accounting other than GAAP.
   d. The following is an example of a paragraph added to a report on statements prepared in accordance with a special purpose framework (i.e., the tax basis):

   **EXAMPLE**
   The financial statements are prepared in accordance with the tax basis of accounting, described in note 1 to the financial statements, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

6. **Reporting When the Accountant Is Not Independent**
   a. An accountant who is not independent with respect to the entity should indicate his or her **lack of independence** in a final paragraph of the report.
   b. The following is an example of a paragraph indicating a lack of independence:

   **EXAMPLE**
   I am not independent with respect to XYZ Company.

   c. If the accountant elects to disclose the reasons independence is impaired, (s)he should include **all** the reasons.
   d. The following is an example of a paragraph indicating lack of independence:

   **EXAMPLE**
   I am not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I had a direct financial interest in XYZ Company.
7. Reporting on Financial Statements that Omit Substantially All Required Disclosures
   a. An accountant should not report on statements that omit such disclosures if the omission was intended to mislead users.
   b. When the accountant reports on statements that omit disclosures, the report should state in a separate paragraph that
      1) Management has elected to omit substantially all disclosures (and the statement of cash flows, if applicable) required by the framework.
      2) The omitted disclosures might influence the user's conclusions if they (and the statement of cash flows, if applicable) were included in the statements.
      3) The statements are not designed for those who are not informed about such matters.
   c. The following is an example paragraph that describes omitted disclosures:

   **EXAMPLE**
   Management has elected to omit substantially all the disclosures ordinarily included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

   d. The omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation report like any other departure from the framework. The nature of the departure and its effects, if known, should be disclosed in the report as discussed in the following section.

8. Reporting Known Departures from the Applicable Financial Reporting Framework
   a. The accountant may become aware of a material departure from the framework (including inadequate disclosure). If the statements are not revised, the accountant should consider whether modifying the report by adding a separate paragraph is adequate.
   b. The effects of the departure should be disclosed if they (1) have been determined by management or (2) are readily known to the accountant.
   c. The following is an example of a separate paragraph:

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

   d. If the effects of the departure are not known, the accountant is not required to determine its effects. But the report should state that the determination has not been made by management.
   e. If modification of the compilation report is not adequate to indicate the deficiencies in the statements as a whole, the accountant should (1) withdraw from the engagement and (2) provide no further services with respect to those statements. (The accountant may want to consult legal counsel.)
   f. The accountant never indicates in the compilation report that the statements do not conform with the framework. This conclusion can be formed only on the basis of an audit.
9. **Supplementary Information**
   a. When supplementary information accompanies financial statements, the accountant should clearly indicate the degree of responsibility, if any, (s)he is taking with respect to the information.
   
   1) This indication may be in (a) an **other-matter** paragraph in the compilation report on the statements or (b) a **separate report** on the supplementary information.
   
   b. An accountant may have performed a compilation of the statements **and** the supplementary information. (S)he may (1) include a separate paragraph in the report or (2) elect to issue a separate report on the supplementary information stating that the information is
   
   1) Presented for additional analysis and is not required
   2) The responsibility of management
   3) Subject to the compilation engagement
   4) Not audited or reviewed, and the accountant does not (a) express an opinion or a conclusion or (b) provide any assurance on the information
   
   c. An accountant who has **not** compiled the supplementary information also may elect to use a separate paragraph or separate report. The disclosure should state that the supplementary information is
   
   1) Presented for additional analysis and is not required
   2) The responsibility of management
   3) Not compiled and the accountant does not (a) express an opinion or a conclusion or (b) provide any assurance on the information
   
   d. If a separate report is not presented, the disclosures discussed in this subunit are included in an other-matter paragraph of the compilation report.

10. **Required Supplementary Information (RSI)**
   a. If supplementary information is required, the accountant should explain one of the following in an **other-matter** paragraph:
   
   1) RSI is included, and the accountant compiled it.
   2) RSI is included, and the accountant did **not** compile, review, or audit the RSI.
   3) RSI is omitted.
   4) Some RSI is missing, and some is presented in accordance with prescribed guidelines.
   5) The accountant has identified departures from prescribed guidelines.
   6) The accountant has unresolved doubts about whether the RSI is presented in accordance with prescribed guidelines.

11. **Compilation of Pro Forma Financial Information (PFFI) (AR-C 120)**
   a. The requirements of AR-C 120 are in addition to those in AR-C 60 and AR-C 80.
   
   b. PFFI shows the significant effects on historical information that might have resulted if a consummated or proposed transaction or event had occurred earlier.
   
   c. The accountant’s objective is to assist management to present PFFI and to report in writing without providing assurances.
   
   d. The accountant may compile PFFI only if it is contained in a document that includes the complete financial statements on which it is based.
   
   1) These statements must have been compiled, reviewed, or audited, and the report must be included.
   2) The summary of significant assumptions also must be included with the PFFI.
12. Documentation of a Compilation Engagement
   a. The accountant should prepare documentation for each compilation engagement in sufficient detail to provide a clear understanding of the work performed.
   b. The minimum presentation includes the following:
      1) The engagement letter or other suitable written documentation of the understanding with management
      2) A copy of the financial statements
      3) A copy of the accountant’s report

Stop and review! You have completed the outline for this subunit. Study multiple-choice questions 8 and 9 on page 52.

19.4 REVIEW OF FINANCIAL STATEMENTS (AR-C 90)

1. Scope and Objective
   a. The guidance for a review of financial statements also applies to reviews of other historical (but not pro forma) financial information.
      1) SSAEs apply to reviews of pro forma information.
   b. The objective of a review of financial statements is to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the statements for them to be in accordance with the reporting framework (e.g., GAAP).
   c. Limited assurance also is known as negative assurance, in contrast with the positive assurance provided by an audit.
   d. A review is performed primarily through inquiry and analytical procedures.
   e. The accountant must be independent of the entity when performing a review. If, during the review, the accountant determines that independence is impaired, (s)he should withdraw from the engagement.
      1) However, if the accountant lacks independence, (s)he may accept a new engagement to prepare or compile the statements.

2. Communication with Management and Those Charged with Governance
   a. The accountant should communicate appropriately during the review all related significant matters that merit the attention of (1) management and (2) those charged with governance.
      1) Management consists of persons with executive responsibility for the entity’s operations.
      2) Those charged with governance include the persons or organizations (e.g., a corporate trustee) responsible for (a) overseeing the strategic direction of the entity and (b) the obligations related to the accountability of the entity (e.g., for oversight of financial reporting).
      3) Those charged with governance may include management personnel.
   b. Matters communicated include (1) the accountant’s responsibilities and (2) significant findings. The following are examples of findings:
      1) Views about the entity’s accounting practices
      2) The need to perform additional procedures
      3) Matters, such as fraud or noncompliance, that may require modification of the report
      4) Significant difficulties that may lead to withdrawal from the engagement
c. Communication may be in the form of (1) inquiries while performing procedures or
(2) other communications as part of having an effective dialogue to understand
issues and develop a working relationship.

d. The communication may be oral or written.

e. The accountant normally is not required to communicate with those outside the
entity unless required by law or regulation.

3. **Nature of a Review**

a. The accountant should possess or obtain a sufficient understanding of the industry
and knowledge of the entity.

1) The understanding of the industry includes the accounting principles and
practices generally used.

2) The knowledge of the entity includes an understanding of (a) the entity’s
business and (b) its accounting principles and practices.

3) The understanding should suffice to (a) identify the assertions in the financial
statements having a greater likelihood of material misstatement and (b) design
procedures to address those risks.

4) A review is not as comprehensive as an audit. Thus, the accountant is not
expected to (a) obtain an understanding of the entity’s internal control,
(b) assess fraud risks, (c) test the accounting records, (d) examine source
documents, or (e) perform other audit procedures.

b. **Designing and Performing Review Procedures**

1) The accountant should (a) design and perform analytical procedures; (b) make
inquiries; and (c) perform other procedures, as appropriate, to obtain limited
assurance.

2) **Review evidence** is information used by the accountant to provide a reasonable
basis for obtaining limited assurance.

3) The procedures to obtain review evidence should be based on the accountant’s
(a) understanding of the industry, (b) knowledge of the entity, and
(c) awareness of risks.

   a) The accountant should concentrate on assertions having increased risks of
   material misstatement (RMMs).

4. **Review Evidence – Analytical Procedures**

a. Analytical procedures are evaluations of financial information through analysis of
plausible relationships among both financial and nonfinancial data.

1) They also include any necessary investigation of identified fluctuations or
relationships that (a) are inconsistent with other relevant information or (b) differ
significantly from expected values.

2) The accountant should apply analytical procedures to the financial statements
to identify, and provide a basis for inquiry about, the relationships and
individual items that (a) appear to be unusual and (b) may indicate a material
misstatement.

3) The basic premise of analytical procedures is that plausible relationships among
data may reasonably be expected to exist and continue in the absence of
known conditions to the contrary.
b. Analytical procedures should
   1) Compare the statements with comparable information for the prior period, considering knowledge about changes in the entity’s business and specific transactions
   2) Consider plausible relationships among both financial and, when relevant, nonfinancial information
   3) Compare recorded amounts, or ratios developed from recorded amounts, with expectations developed from relationships within the entity or the entity’s industry
   4) Compare disaggregated revenue data, as applicable

c. When designing and performing analytical procedures, the accountant should
   1) Determine the suitability of particular procedures
   2) Consider the reliability of the underlying data from which the expectations of recorded amounts or ratios are developed
   3) Develop an expectation of recorded amounts or ratios and evaluate whether it is sufficiently precise to provide limited assurance of identifying a material misstatement
   4) Determine the amount of any difference between recorded amounts and expected values that is acceptable without further investigation
   5) Compare the recorded amounts or ratios with expectations

d. The following are examples of potentially useful analytical procedures:
   1) Comparing revenues and expenses of the current period and the prior period
   2) Comparing current statements with anticipated results, such as budgets and forecasts
   3) Comparing current statement information with relevant nonfinancial information, such as hours worked or product shipped
   4) Comparing the current-period and prior-period measures of (a) the current ratio, (b) receivables turnover, (c) inventory turnover, (d) depreciation to average fixed assets, (e) debt to equity, (f) gross profit percentage, and (g) net income percentage
   5) Comparing ratios and indicators for the current period with those of entities in the same industry
   6) Comparing disaggregated data, e.g., monthly or weekly amounts of (a) sales or (b) sales by product line, operating segment, or location, with data from prior periods or budgets

e. Analytical procedures may be performed at the statement level or the detailed account level.
   1) Those at the statement level provide evidence to support overall conclusions. For example, the accountant may question whether the size of a warehouse can hold all of the reported inventory.
   2) Those at the detailed account level provide evidence of potential account balance misstatement. For example, the accountant may compare monthly balances of receivables for the current year and prior year.

f. Analytical procedures may identify fluctuations or relationships that (1) are inconsistent with other relevant information or (2) differ significantly from expected values.

g. The accountant should investigate such differences by (1) inquiring of management and (2) performing other review procedures if necessary.
h. The following is an example of this process:

**EXAMPLE**
By applying an analytical procedure, the accountant discovered that the accounts receivable balance was greater than expected based on the prior year’s balance. The accountant inquired of management about the reason. The response was that the cash receipts clerk was absent from work during the last week of the year. An inspection of the cash receipts records determined that cash receipts were not recorded for the last week. Accordingly, cash was understated and accounts receivable overstated. Based on this finding, management corrected the misstatement.

5. **Review Evidence – Inquiries of Management**
   a. The accountant should obtain review evidence by inquiring of members of management who have responsibility for financial and accounting matters related to the financial statements.
   b. Inquiries should be made about matters the accountant considers necessary, such as the following:
      1) Whether the statements have been prepared and fairly presented in accordance with the reporting framework consistently applied
      2) Unusual or complex situations that may affect the statements
      3) Significant transactions occurring or recognized during the period, particularly in the last several days of the period
      4) The status of uncorrected misstatements identified during the previous review
      5) Matters about which questions have arisen during the review
      6) Events subsequent to the date of the statements that could have a material effect on their fair presentation
      7) Knowledge of fraud or suspected fraud involving (a) management, (b) employees with significant roles in internal control, or (c) others if the fraud could materially affect the statements
      8) Awareness of any allegations of fraud or suspected fraud affecting the entity
      9) Whether management has disclosed all known or suspected noncompliance with laws and regulations that may affect the statements
      10) Significant journal entries and other adjustments
      11) Communications from regulatory agencies
      12) Related parties and significant new related-party transactions
      13) Any litigation, claims, and assessments (a) at the date of the balance sheet and (b) during the period from the balance sheet date to the date of management’s response
      14) Whether management believes that significant assumptions used in making accounting estimates are reasonable
      15) Actions taken at meetings of shareholders, the board, or comparable meetings that may affect the statements
   c. The accountant should consider the (1) reasonableness and consistency of the responses given, (2) results of other review procedures, and (3) accountant’s knowledge of the entity’s business. However, the accountant is **not required** to corroborate the responses.
6. **Review Evidence – Written Representations**
   a. A **representation letter** addressed to the accountant should be obtained to confirm certain matters or to support other review evidence. (Study Unit 14, Subunit 3, provides an example.)
   b. The letter typically is signed by members of management in key financial positions, such as the **chief executive officer** and the **chief financial officer**.
   c. It should be dated as of the date of the review report.

7. **Review Evidence – Other Procedures**
   a. The accountant should **read** the statements and consider whether any information has come to his or her attention to indicate that they are **not** in accordance with the framework.
   b. The accountant also should (1) obtain evidence that the statements **agree or reconcile** with the **accounting records** and (2) read the reports of other accountants who have reported on significant components of the entity.

8. **Evaluating Evidence**
   a. The accountant should accumulate **misstatements**, including inadequate disclosure.
   b. The accountant should evaluate misstatements, individually and in the aggregate, to determine whether the statements should be materially modified for them to be in accordance with the framework.
   c. The accountant may become aware that information is incorrect, incomplete, or otherwise unsatisfactory. The accountant then should
      1) Request that management (a) consider the effect on the statements and (b) communicate the results of the consideration to the accountant.
      2) Consider (a) the results and (b) whether they indicate that the statements may be materially misstated.
   d. If the accountant believes that the statements may be materially misstated, (s)he should perform the **additional procedures** necessary to obtain **limited assurance**.
   e. If the accountant concludes that the statements are materially misstated, the reporting guidance for known departures from the framework applies (item 11. on page 38).
   f. Even if the accountant has no reason to believe that the statements are materially misstated, (s)he should evaluate whether the review evidence obtained is **sufficient and appropriate** to form a conclusion.
      1) If it is not, the accountant should (a) extend the work performed or (b) perform other procedures that, in his or her professional judgment, are necessary.
      2) The AICPA does **not** specify what additional (or other) procedures should be performed, but they might include tests of details, confirmations, and reconciliations.
9. **Review Report**
   a. A written review report in hard copy or electronic format should be presented that consists of
      1) A title that includes the word *independent* to indicate clearly that it is the report of an independent accountant.
      2) An addressee, as appropriate.
      3) An introductory paragraph that
         a) Identifies the entity whose financial statements have been reviewed.
         b) States that the statements identified in the report were reviewed.
         c) Identifies the statements.
         d) Specifies the date or period covered by each statement.
         e) States that a review primarily includes applying analytical procedures to management’s (owner’s) financial data and making inquiries of company management (owners).
         f) States that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the statements as a whole. Accordingly, the accountant does not express such an opinion.
      4) A section with the heading **Management’s Responsibility for the Financial Statements** that includes an explanation that management is responsible for the preparation and fair presentation of the statements in accordance with the applicable reporting framework. This responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the presentation.
      5) A section with the heading **Accountant’s Responsibility** that includes the following statements:
         a) The accountant’s responsibility is to conduct the review in accordance with SSARs promulgated by the Accounting and Review Services Committee of the AICPA.
         b) The accountant believes that the review evidence obtained is sufficient and appropriate to provide a basis for the conclusion.
      6) A concluding section with an appropriate heading, for example, **Accountant’s Conclusion**. It includes a statement about whether the accountant is aware of any material modifications that should be made to the accompanying statements for them to be in accordance with the applicable reporting framework and identifies the country of origin of those accounting principles, if applicable.
      7) The signature of the accountant or the accountant’s firm.
      8) The city and state where the accountant practices.
      9) The date of the review report. It should be dated no earlier than the date on which the accountant has completed procedures sufficient to obtain limited assurance.
   b. The accountant should consider including a reference on each page of the financial statements, such as **See Independent Accountant’s Review Report**.
   c. A continuing accountant should **update** the report on one or more prior periods presented comparatively with those of the current period. An updated report considers information the continuing accountant has obtained during the current engagement and
      1) Re-expresses the accountant’s previous conclusions or
      2) Depending on the circumstances, expresses different conclusions on the statements of a prior period as of the date of the current report.
d. The following is an example of a review report on comparative financial statements:

**EXAMPLE -- Standard Review Report**

**Independent Accountant’s Review Report**

To the owners of XYZ Company

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management’s (owners’) financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

**Management’s Responsibility for the Financial Statements**

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

**Accountant’s Responsibility**

My (Our) responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for our conclusion.

**Accountant’s Conclusion**

Based on my (our) reviews, 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 accordance with accounting principles generally accepted in the United States of America.

<table>
<thead>
<tr>
<th>Signature of accounting firm or accountant, as appropriate</th>
<th>May be manual, printed, or digital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant’s city and state</td>
<td>Accountant’s office location</td>
</tr>
<tr>
<td>Date of the accountant’s review report</td>
<td>Date of completion of review</td>
</tr>
</tbody>
</table>

10. **Special Purpose Frameworks**

a. The accountant’s review report on statements prepared in accordance with a special purpose framework (e.g., cash basis, tax basis, or a contractual or regulatory basis) should

1) Refer to management’s responsibility for determining that the framework is acceptable.

2) Describe the purpose for which the statements are prepared or refer to a note that contains that information when they are prepared in accordance with a regulatory basis or a contractual basis.
3) Include an **emphasis-of-matter** paragraph, under an appropriate heading, that
   a) Indicates that the statements are prepared in accordance with the special
      purpose framework,
   b) Refers to the note that describes the framework, and
   c) States that the framework is a basis of accounting other than GAAP.

b. The accountant should **modify** the review report if the statements do **not** include
   1) A description of the framework
   2) A summary of significant accounting policies
   3) An adequate description of how the framework differs from GAAP
   4) Informative disclosures similar to GAAP disclosures if items are included that are
      similar to items included in GAAP-based statements

11. **Known Departures from the Framework**
   a. The accountant may become aware of a departure (including inadequate disclosure)
      that is material to the financial statements. If they are **not** revised, (s)he should
      consider whether modification of the report is adequate to disclose the departure.

   1) If the accountant concludes that modification is **adequate**, the departure should
      be disclosed in a **separate paragraph** of the report under the heading **Known
      Departures From Accounting Principles Generally Accepted in the United
      States of America** (or other applicable framework).

      a) The disclosure should include the **effects** of the departure if they (1) have
         been determined by management or (2) are known to the accountant as
         the result of his or her procedures.

      b) If the effects of the departure have not been determined by management
         or are not known, the accountant is **not** required to determine the effects.
         In such circumstances, the accountant should state in the report that the
         determination has not been made.

      c) The **Accountant’s Conclusion** paragraph is modified to include the
         phrase ". . . except for the issue noted in the Known Departure From
         Accounting Principles Generally Accepted in the United States of America
         paragraph . . .”

      d) The following is an example of the final two paragraphs in a report to
         disclose known departures from GAAP.

      **EXAMPLE**

      **Accountant’s Conclusion**

Based on my (our) reviews, except for the issue noted in the Known Departure From Accounting Principles Generally Accepted in the United States of America paragraph, 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 accordance with accounting principles generally accepted in the United States of America.

**Known Departure From Accounting Principles Generally Accepted in the United States of America**

As disclosed in Note X to these 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.

2) If modification of the report is **not adequate** to indicate the deficiencies in the
   statements as a whole, the accountant should **withdraw** from the engagement.
   The accountant also may wish to consult legal counsel.
b. The accountant must not modify the report to state that the financial statements are not in accordance with the applicable framework. A review engagement provides no form of reporting that corresponds to an adverse opinion on audited financial statements. Thus, no adverse review report may be issued.

12. **Fraud and Noncompliance**

   a. The accountant may become aware that fraud (including misappropriation of assets) might have occurred. (S)he then should communicate the matter as soon as practicable to the appropriate level of management (at a level above those involved with the suspected fraud, if possible).

   b. The accountant also may become aware of noncompliance that should be considered when preparing the financial statements. Unless the matter is clearly inconsequential, it should be communicated to management.

   c. If the fraud or noncompliance (1) involves senior management or (2) results in a material misstatement, the accountant should communicate the matter directly to those charged with governance.

   d. Management or those charged with governance (if appropriate) may not provide sufficient information that supports the conclusion that the statements are not materially misstated due to fraud or noncompliance.

      1) The accountant then should consider the need to obtain legal advice and take appropriate action, including potential withdrawal.


   a. An emphasis-of-matter paragraph is included in the review report (1) if required by SSARSs or (2) at the accountant’s discretion.

      1) It refers to a matter that is appropriately presented or disclosed in the statements that, in the accountant’s judgment, is fundamental to users’ understanding and is a matter to which attention should be drawn.

      2) An accountant may add more than one such paragraph.

      3) The paragraph should have the heading Emphasis-of-Matter and follow the Accountant’s Conclusion paragraph. The following are examples of matters that may be emphasized:

         a) Uncertainties

         b) That the entity is a component of a larger business enterprise

         c) That the entity has had significant transactions with related parties

         d) Unusually important subsequent events

   b. An other-matter paragraph is included in the report (1) if required by SSARSs or (2) at the accountant’s discretion. It refers to a matter other than those presented or disclosed in the statements that, in the accountant’s judgment, is relevant to (1) users’ understanding of the review, (2) the accountant’s responsibilities, or (3) the report.

      1) The paragraph should have the heading Other Matter and follow (a) the Accountant’s Conclusion paragraph and (b) any emphasis-of-matter paragraph(s).

      2) Examples of other matters include the accountant’s responsibility for (a) supplementary information included by management or (b) reporting on a regulatory requirement applying to the client.
14. **Ability to Continue as a Going Concern**
   
a. During the review, evidence or information may come to the accountant’s attention indicating an **uncertainty** about the entity’s ability to continue as a going concern for a reasonable period of time. (The period specified by U.S. GAAP is 1 year from the date the statements are issued or are available to be issued.)
   
   1) If an uncertainty exists about an entity’s ability to continue as a going concern, the accountant should request that management consider the **possible effects** on the statements, including the need for disclosure.
   
   2) After management communicates the results of its consideration of the possible effects, the accountant should consider the reasonableness of the conclusions, including the adequacy of disclosure.
   
   a) If the accountant determines that (1) management’s conclusions are adequate and (2) the going concern uncertainty is appropriately presented and disclosed, (s)he may, but is **not** required, to include an **emphasis-of-matter** paragraph in the review report.
   
   3) The accountant may determine that (a) management’s conclusions are unreasonable or (b) its disclosure is **not** adequate. These determinations should be included in a **Known Departures From the Reporting Framework** section of the report.

15. **Subsequent Events**
   
a. Subsequent events occur between the date of the financial statements and the date of the review report.
   
   b. The accountant may identify evidence or information of a subsequent event that requires adjustment of, or disclosure in, the statements. The accountant then should request that management consider whether the subsequent event is appropriately reflected in the statements in accordance with the reporting framework.
   
   c. The accountant may determine that the subsequent event is **not** adequately accounted for or disclosed. These determinations should be included in a **Known Departures From the Reporting Framework** section of the report.

16. **Subsequently Discovered Facts**
   
a. Subsequently discovered facts (1) become known to the accountant after the date of the review report and (2) might have caused a revision of the report if they had been known at that date.
   
   b. The accountant is **not** required to perform any procedures after the date of the report.
   
   c. However, if a subsequently discovered fact becomes known to the accountant **before the report release date**, (s)he should (1) discuss the matter with management and, when appropriate, those charged with governance and (2) determine whether the statements need revision and, if so, inquire how management intends to address the matter in the statements.
   
   1) If management **revises** the statements, the accountant should perform the necessary procedures on the revision.
   
   a) The accountant also should either (1) date the review report as of a later date or (2) include an additional date in the report on the revised statements that is limited to the revision (dual-date the report).
   
   b) **Dual-dating** indicates that the review procedures subsequent to the original date of the report are limited solely to the revision described in the relevant note to the statements.
   
   2) If management does **not revise** the statements when the accountant believes they should be revised, (s)he should modify the report as appropriate or consider withdrawal from the engagement.
d. A subsequently discovered fact may become known to the accountant after the report release date.

1) The accountant should (a) discuss the matter with management and, when appropriate, those charged with governance and (b) determine whether the statements need revision and, if so, inquire how management intends to address the matter.

2) If management does not take the appropriate action, the accountant should ensure that users do not rely on the accountant’s report. For example, (s)he might notify users.

17. Required Supplementary Information (RSI)

a. RSI is required by a designated accounting standards setter to accompany basic financial statements but is not part of those statements.

1) Also, authoritative guidelines for its measurement and presentation have been established. (An example is reserve information for oil and gas producers.)

b. The accountant should include an other-matter paragraph regarding RSI in the review report to explain one or more of the following, if applicable:

1) RSI is included and was compiled or reviewed by the accountant.
2) RSI is included and was not compiled, reviewed, or audited by the accountant.
3) Some or all of the RSI is omitted.
4) The accountant has identified departures from the prescribed guidelines.
5) The accountant has unresolved doubts about whether the RSI is presented in accordance with prescribed guidelines.

18. Supplementary Information Accompanying the Statements

a. Supplementary information, other than RSI, is (1) presented outside the basic financial statements and (2) not considered necessary for fair presentation in accordance with the reporting framework.

1) It may be presented in a document with the reviewed statements or separately.

b. The accountant should clearly indicate the degree of responsibility, if any, (s)he is taking with respect to such information in either (1) an other-matter paragraph in the report on the statements or (2) a separate report on the supplementary information.

c. If the accountant has applied the same review procedures to the supplementary information and the basic financial statements, the other-matter paragraph or separate report should state that

1) The information is presented for additional analysis and is not required.
2) The information is the responsibility of management.
3) The information is derived from the same records or the financial statements.
4) The same procedures were applied to the information and the basic statements.
   a) The accountant also should state whether the information should be materially modified.
5) The information was not audited and no opinion is expressed.

d. If the accountant has not applied the same review procedures to the basic statements and the supplementary information, the other-matter paragraph or the separate report should state that

1) The information is presented for additional analysis and is not required.
2) The information is the responsibility of management.
3) The accountant has not audited or reviewed the information and does not express an opinion or a conclusion or provide any assurance on it.
19. **Review Documentation**

   a. Review documentation is the record of (1) review procedures performed, (2) relevant review evidence obtained, and (3) conclusions reached. (Other terms sometimes used are working papers or workpapers.)

   b. The accountant should prepare documentation that suffices to enable an experienced accountant, having no previous connection to the review, to understand

      1) The nature, timing, and extent of the procedures performed to comply with SSARSs;
      2) The results of the procedures performed and the evidence obtained; and
      3) Significant findings or issues arising during the review, the conclusions reached, and significant professional judgments made in reaching those conclusions.

   c. In addition, review documentation should include the following:

      1) The engagement letter or other suitable form of written agreement with management
      2) Communications to management and others about fraud or noncompliance with laws and regulations
      3) Communications with management about the accountant’s expectation to include an emphasis-of-matter or other-matter paragraph in the report
      4) Communications with other accountants that have audited or reviewed the statements
      5) The representation letter
      6) A copy of the reviewed statements and the accountant’s review report

20. **Change in Engagement From Audit to Review**

   a. An accountant engaged to audit the statements of a nonissuer may be requested to change the engagement to a review.

      1) The request may result from (a) a change in circumstances affecting the entity’s need for an audit, (b) a misunderstanding about the nature of an audit or review, or (c) a restriction on the scope of the audit.

      2) Before an accountant engaged to perform an audit in accordance with GAAS agrees to change the engagement to a review, at least the following should be considered:

         a) The reason given for the request, especially the implications of a restriction on the scope of the engagement, whether imposed by management or by circumstances
         b) The additional audit effort required to complete the audit
         c) The estimated additional cost to complete the audit

   b. In all circumstances, if audit procedures are substantially complete, or the cost to complete the procedures is relatively insignificant, the accountant should **consider** the propriety of a change in the engagement.

   c. If the accountant (1) concludes that the change is reasonably justified and (2) complies with the standards applicable to a review, (s)he should issue an appropriate review report. The report should **not** refer to

      1) The original engagement,
      2) Any audit procedures that may have been performed, or
      3) Scope limitations that resulted in the change.

   d. If (1) the original engagement was to perform an audit and (2) management refused to allow the accountant to correspond with the entity’s legal counsel, the accountant, except in rare circumstances, is precluded from accepting a review engagement.
21. Reference to the Work of Other Accountants
   a. Other accountants may have audited or reviewed the statements of significant components (e.g., subsidiaries). If the reporting accountant decides not to assume responsibility for the audit or review, (s)he should indicate in the review report (1) that the work was used and (2) the magnitude of the portion of the statements audited or reviewed by other accountants.
   b. Whether or not reference is made, the reporting accountant should communicate with the other accountants to determine that
      1) They are aware of the use of their work, and
      2) They are familiar with the reporting framework and applicable standards.

22. Reporting when One Period is Audited
   a. When the prior period statements were audited and the auditor’s report is not reissued, the review report on the current statements should include an other-matter paragraph indicating
      1) That the statements of the prior period were audited;
      2) The date of the auditor’s report;
      3) The type of opinion expressed;
      4) The substantive reasons for any modification of opinion; and
      5) That no auditing procedures were performed after the date of the previous report.

23. Restricted Use of the Report
   a. When the accountant concludes that the financial information reported on is suitable only for a limited set of users, the report should contain a separate paragraph that restricts the use of the report to those users.

Stop and review! You have completed the outline for this subunit. Study multiple-choice questions 10 though 13 beginning on page 53.

19.5 ENGAGEMENTS TO APPLY AGREED-UPON PROCEDURES (AT-C 215)

1. Nature of the Engagement
   a. An agreed-upon procedures engagement is one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter.
   b. Specified parties assume responsibility for the sufficiency of the procedures.
   c. The report is in the form of procedures and findings, and neither an opinion nor negative (limited) assurance should be provided.
   d. The practitioner should comply with the appropriate sections of AT-C 105, Concepts Common to All Attestation Engagements. The key issues are addressed in this subunit.
   e. The practitioner should request a written assertion from the responsible party. If the responsible party refuses to provide one, the practitioner should disclose the refusal in the report.

2. Procedures
   a. Appropriate procedures are associated with specific actions to be taken, including
      1) Inspection of specified documents for attributes
      2) Confirmation of specific information with third parties
      3) Comparison of documents or schedules with certain attributes
      4) Performance of mathematical computations or sampling
b. **Inappropriate procedures** are ambiguously described. Examples are
   1) Mere reading of the work performed by others to describe their findings
   2) Evaluating the competency or objectivity of another party
   3) Obtaining an understanding about a particular subject
   4) General review, checking, or any other overly subjective procedure
   5) Interpreting documents outside the scope of the practitioner’s expertise

3. The practitioner may perform an engagement provided that
   a. (S)he is **independent**.
   b. A specified party is responsible for the **subject matter** (or the client has a reasonable basis for providing a written assertion, if required).
   c. The specified parties agree with the practitioner about the **procedures** to be performed.
   d. The specified parties are responsible for the **sufficiency** of the procedures.
   e. Procedures are expected to result in reasonably consistent **findings**.
   f. **Criteria** to be used in the determination of findings are agreed upon.
   g. Reasonably consistent subject matter **measurement** can be expected.
   h. **Evidence** providing a reasonable basis for findings can be collected.
   i. An agreement exists on **materiality** limits for reporting when applicable.
   j. **Use** of the report is restricted to specified parties.

4. The following are additional considerations for an agreed-upon procedures engagement:
   a. A written engagement agreement (letter) should be obtained.
   b. Written representations should be requested from the responsible party.
   c. The practitioner need not perform procedures beyond those agreed to. However, if during the engagement matters come to the attention of the practitioner that appear contradictory, they should be included in the report.
   d. The practitioner should communicate any known or suspected fraud or noncompliance with laws or regulations to the responsible party.
   e. Attestation documentation (working papers) should be prepared to support the engagement.

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**EXAMPLE** -- Report on Agreed-Upon Procedures

**Independent Accountant’s Report on Applying Agreed-Upon Procedures**

To the Audit Committee and Managements of ABC, Inc., and XYZ Fund:

We have performed the procedures enumerated below on the statement of investment performance statistics, which were agreed to by the audit committees and managements of ABC, Inc., and XYZ Fund on 12/1/X1. XYZ Fund’s management is responsible for the statement of investment performance statistics. The sufficiency of these procedures is solely the responsibilities of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

[Include paragraphs to enumerate procedures and findings.]

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the audit committees and managements of ABC, Inc., and XYZ Fund, and is not intended to be, and should not be, used by anyone other than the specified parties.

Signature  
Practitioner’s address  
Date  

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Stop and review! You have completed the outline for this subunit. Study multiple-choice questions 14 and 15 on page 54.

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19.6 FINANCIAL FORECASTS AND PROJECTIONS (AT-C 305)

1. Prospective Financial Statements (PFSs)
   a. PFSs consist of financial forecasts or projections, including summaries of significant assumptions and accounting policies. A practitioner may examine or apply agreed-upon procedures to PFSs. But a review is not permitted.
   b. The practitioner must be independent to report on PFSs.
   c. The practitioner and the engaging party should have a common understanding of the engagement terms, including reporting responsibilities.
   d. The practitioner should request a written assertion from the responsible party. If the responsible party refuses, the practitioner should withdraw from the engagement unless not permitted by law or regulation.
   e. The practitioner should timely prepare engagement documentation.

2. A financial forecast consists of PFSs that present, to the best of the responsible party’s knowledge and belief, an entity’s expected financial position, results of operations, and cash flows.
   a. It is based on the responsible party’s assumptions reflecting conditions it expects to exist and the course of action it expects to take.
      1) The responsible party is usually management of the entity, but it may be a party outside the entity, such as a potential acquirer.
   b. It may be expressed in specific monetary amounts as a range or as a single point estimate of forecasted results. For a range, the responsible party selects key assumptions to form an interval within which it reasonably expects, to the best of its knowledge and belief, the item or items subject to the assumptions to actually fall.

3. A financial projection differs from a forecast. A projection is based on the responsible party’s assumptions reflecting conditions it expects would exist and the course of action it expects would be taken, given one or more hypothetical assumptions.
   a. A projection is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to a question such as, “What would happen if . . .?” A projection may be expressed as a point estimate or a range.

4. PFSs are for general use if they are for use by persons with whom the responsible party is not negotiating directly, e.g., in an offering statement of the party’s securities.
   a. Only an examination report on a forecast is appropriate for general use.

5. Limited use of PFSs means use by the responsible party and those with whom that party is negotiating directly. Examples are use in a submission to a regulatory body or in negotiations for a bank loan. These third parties can communicate directly with the responsible party.
   a. A limited-use statement is included in reports on (1) an examination of a projection and (2) agreed-upon procedures engagements for projections and forecasts.

6. Examinations
   a. An examination evaluates the preparation of the statements, the support underlying the assumptions, and the presentation of the statements for conformity with AICPA guidelines.
   b. The examination report states the practitioner’s opinion on whether (1) the PFSs conform with AICPA guidelines and (2) the assumptions provide a reasonable basis for (a) the forecast or (b) the projection given hypothetical assumptions.
   c. An “except for” qualified opinion may be expressed for failure to disclose certain matters other than the significant assumptions.
d. If assumptions that appear to be significant at the time are not disclosed in the presentation, including the summary of assumptions, the practitioner should express an adverse opinion. Moreover, a practitioner should not examine a presentation that omits all such disclosures.

e. A paragraph in the examination report states the following caveat:

*There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.*

7. **Agreed-Upon Procedures**

a. A practitioner may accept an engagement to apply agreed-upon procedures to PFSs if (s)he is independent and each of the following applies:

1) The specified parties agree to the procedures and take responsibility for their sufficiency.
2) Report use is limited to specified parties.
3) The statements include a summary of significant assumptions.

b. The report should state that the practitioner did not perform an examination and that other matters might have come to his or her attention if additional procedures had been performed.

1) It also should **disclaim an opinion** on conformity with AICPA presentation guidelines, etc.
2) The report lists the procedures performed and the related findings. It does not provide positive or limited assurance.

c. The guidance in Subunit 19.5 also is relevant.

8. **Review**

a. AT-C 305 does **not** provide for a review engagement regarding PFSs. Thus, it does not provide for the expression of limited assurance on them.

Stop and review! You have completed the outline for this subunit. Study multiple-choice questions 16 and 17 beginning on page 54.

19.7 **REPORTING ON PRO FORMA FINANCIAL INFORMATION (AT-C 310)**

1. Pro forma financial information (PFFI) shows “what the significant effects on historical financial information would have been had a consummated or proposed transaction (or event) occurred at an earlier date.” Examples of these transactions include

a. A business combination
b. Disposal of a segment
c. Change in the form or status of an entity
d. A change in capitalization

2. The accounting and review standards apply to compilations of PFFI (AR-C 120, *Compilation of Pro Forma Information*).

a. In general, all requirements for the compilation of financial statements apply to the compilation of PFFI. Examples are (1) obtaining an engagement letter, (2) maintenance of accounting and review documentation (working papers), and (3) disclosing a lack of independence in the report.
b. Other requirements for compilation of PFFI include
1) Availability of the complete set of financial statements for the most recent year (or comparable period)
2) Determining that (a) the financial statements on which the PFFI is based have been compiled, reviewed, or audited and (b) the appropriate practitioner’s report is included with those statements
3) A summary of significant assumptions

3. The attestation standards apply to reviews and examinations of PFFI (AT-C 310, Reporting on Pro Forma Financial Information).

a. In general, requirements for reviews or examinations of PFFI are similar to those for other attestation services. Examples are (1) obtaining an engagement letter, (2) requesting a written assertion and written representations, (3) maintenance of attestation documentation (working papers), and (4) the requirement of independence.

b. Other requirements for review and examination of PFFI include
1) Availability of the complete set of financial statements for the most recent year (or comparable period)
2) Determining that (a) the financial statements on which the reviewed PFFI is based have been reviewed or audited and (b) the appropriate practitioner’s report is included with those statements
3) Determining that (a) the financial statements on which the examined PFFI is based have been audited and (b) the appropriate practitioner’s report is included with those statements
4) A summary of significant assumptions

4. Review reports on PFFI are similar to other review reports because they provide limited assurance. The following is a conclusion paragraph from a review report on PFFI:

EXAMPLE – Conclusion Paragraph – Review of PFFI
Based on our review, we are not aware of any material modifications that should be made to management’s assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction described in Note 1, the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or the pro forma amounts, in order for them to reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of March 31, 20X2, and the related pro forma condensed statement of income for the three months then ended, based on the criteria in Note 1.

5. Examination reports on PFFI are similar to other examination or audit reports because they express an opinion. The following is an opinion paragraph from an examination report on PFFI:

EXAMPLE – Opinion Paragraph – Examination of PFFI
In our opinion, based on the criteria in Note 1, management’s assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction described in Note 1 and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

Stop and review! You have completed the outline for this subunit. Study multiple-choice question 18 and 19 on page 55.
1. A practitioner may be requested to provide assurance about the entity’s **compliance with specified financial or nonfinancial requirements** (laws, regulations, rules, contracts, or grants). The engagement also may apply to the responsible party’s **written assertion about compliance**.
   a. For example, management might make the assertion: “Z Company complied with the restrictive covenants in paragraph 20 of its Loan Agreement with Y Bank dated January 1, Year 1, as of and for the 3 months ended March 31, Year 1.”
   b. However, compliance attestation does **not** provide a legal determination of an entity’s compliance.
   c. A practitioner may perform agreed-upon procedures or an examination but **not** a review.
   1) AT-C 315 does **not** apply to an examination of internal control over compliance.
   d. A practitioner also must comply with the general attestation guidance for (1) common concepts (AT-C 105), (2) examinations (AT-C 205), and (3) agreed-upon procedures (AT-C 215).

   **NOTE:** These matters are addressed in Study Unit 1, Subunit 1.

2. **Preconditions for Engagement Performance**
   a. For **agreed-upon procedures** and **examination** engagements, management should
      1) Accept responsibility for the entity’s (a) compliance with specified requirements and (b) internal control over compliance
      2) Evaluate compliance with (a) the specified requirements or control over compliance (in an agreed-upon procedures engagement) or (b) the specified requirements (in an examination engagement)
   b. For **agreed-upon procedures** and **examination** engagements, the practitioner should obtain an understanding of the specified requirements through
      1) Consideration of laws, regulations, etc.
      2) Consideration of knowledge obtained from prior engagements and regulators’ reports.
      3) Interviews with entity personnel, e.g., legal counsel and internal auditors.
   c. For an **examination**, the practitioner should obtain from management a written **assertion** about compliance.
      1) If management refuses, the practitioner should withdraw if possible.

3. **Examination Engagements**
   a. The objective is **to express an opinion on** whether the entity complied (or on whether management’s assertion about such compliance is fairly stated), in all material respects.
      1) The practitioner must obtain sufficient and appropriate evidence to provide **reasonable assurance** of compliance.
      2) The examination should be planned to detect intentional and unintentional noncompliance.
   b. The consideration of **materiality** differs from that in an audit of financial statements in accordance with GAAS. The following should be considered:
      1) The nature of the compliance requirements, which may not be quantifiable in monetary terms
      2) The nature and frequency of noncompliance identified, with appropriate consideration of sampling risk
      3) Qualitative considerations, including the needs and expectations of users
c. The practitioner should obtain an understanding of the relevant internal control over compliance sufficient to plan the engagement and assess control risk. The understanding should be used to

1) Determine types of noncompliance
2) Consider matters affecting the risk of noncompliance
3) Design tests of noncompliance

d. The practitioner should obtain written representations from management regarding compliance (e.g., related to the preconditions).

1) These are in addition to the requirements of AT-C 205.
e. To form an opinion, the practitioner evaluates (1) the nature and frequency of noncompliance and (2) its materiality to the specified requirements.
f. The following is an example of a practitioner’s report on an examination.

**EXAMPLE -- Examination Report on Compliance with Specified Requirements**

**Independent Accountant’s Report**

To: <------------ Addressed to Board of Directors or Shareholders

We have examined XYZ Company’s compliance with [identify the specified requirements, for example, those listed in Attachment 1] during the period January 1, 20X1, to December 31, 20X1. Management of XYZ Company is responsible for XYZ Company’s compliance with the specified requirements. Our responsibility is to express an opinion on XYZ Company’s compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether XYZ Company complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether XYZ Company complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on XYZ Company’s compliance with specified requirements.

In our opinion, XYZ Company complied, in all material respects, with [identify the specified requirements, for example, those listed in Attachment 1] during the period January 1, 20X1, to December 31, 20X1.

Signature <------------ May be signed, typed, or printed
Practitioner’s address <------------ City and state
Date <------------ Date completed examination

---

4. Agreed-Upon Procedures Engagements

a. The objective is to apply procedures established by specified parties to (1) compliance with requirements or (2) the entity’s control over such compliance. The parties are solely responsible for the sufficiency of the procedures for their purposes.

1) The report describes the procedures and the findings.
2) The practitioner is not obligated to perform other procedures.

b. Written representations should be obtained relating to (1) the preconditions, (2) management’s interpretations of ambiguous compliance requirements, and (3) disclosures of known noncompliance after the report date.

c. Among other things, the report has the following content:

1) Independence of the practitioner
2) Subject matter (compliance or control over compliance for a period or as of a moment in time)
3) The specified requirements
4) The specified parties
5) A list (or reference to a list) of procedures and findings
6) Any agreed materiality limits
7) An alert restricting use of the report to the specified parties
5. **Report Modifications**
   a. **Material noncompliance.** When an examination discloses noncompliance with specified requirements that the practitioner believes have a material effect on the entity’s compliance, the report should be modified.
      1) Depending on materiality, the practitioner should express either a **qualified** (except for) or an **adverse opinion** on compliance.
      2) An **explanatory paragraph** (before the opinion paragraph) should be added to the report.
   b. **Scope limitations.** The practitioner should qualify or disclaim an opinion depending on materiality (e.g., if management refuses to provide written representations).

   **AT-C 395, Management’s Discussion and Analysis,** has not been clarified because practitioners rarely perform these engagements. It remains in the attestation standards in its current form. AT-C 395 allows attestation services to be provided on financial representations in the MD&A. We have included example multiple-choice questions in the online study materials for Subunit 19.8.

6. **Management’s Discussion and Analysis (AT-C 395)**
   a. Management’s discussion and analysis (MD&A) may be presented in an annual report or other documents filed with the SEC. MD&A is a written assertion that may be examined or reviewed by the practitioner. However, a report on a review engagement report **cannot** be filed with the SEC.
   b. The practitioner must be independent.
   c. Factors considered in planning an examination include (1) attestation risk for assertions, (2) materiality, (3) items likely to require a revision, and (4) conditions that may require modification of procedures.
      1) The definitions of the components of attestation risk are similar to those for audit risk presented in Study Unit 3, Subunit 3.

**Stop and review! You have completed the outline for this subunit. Study multiple-choice question 20 on page 56.**

**QUESTIONS**

19.1 **General Principles for SSARSs Engagements (AR-C 60)**

1. Statements on Standards for Accounting and Review Services (SSARSs) require an accountant to report when the accountant has
   
   **A.** Photocopied 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.** Compiled, through the use of computer software, financial statements to be used by third parties.

   **Answer (D) is correct.**
   
   **REQUIRED:** The situation in which an accountant must issue a report.
   
   **DISCUSSION:** Unlike a preparation, compilations and reviews require an accountant’s report.

   Answer (A) is incorrect. Typing or reproducing client-prepared financial statements, without modification, as an accommodation to a client does not constitute a SSARSs service. 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. May an accountant accept an engagement to compile or review the financial statements of a not-for-profit entity if the accountant is unfamiliar with the specialized industry accounting principles but plans to obtain the required level of knowledge before compiling or reviewing the financial statements?

<table>
<thead>
<tr>
<th>Compilation</th>
<th>Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. No</td>
<td>No</td>
</tr>
<tr>
<td>B. Yes</td>
<td>No</td>
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<tr>
<td>C. No</td>
<td>Yes</td>
</tr>
<tr>
<td>D. Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Answer (D) is correct. **REQUIRED:** The ability of an accountant to accept an engagement without the required level of knowledge. **DISCUSSION:** The accountant may accept a compilation or review engagement for an entity in an industry with which the accountant has no previous experience. However, (s)he has a responsibility to obtain the required level of knowledge prior to completing the engagement.

3. In a SSARSSs engagement, the accountant is responsible for selecting the

<table>
<thead>
<tr>
<th>Financial Reporting Framework</th>
<th>Procedures to be Applied in the Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. No</td>
<td>No</td>
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<tr>
<td>B. Yes</td>
<td>No</td>
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<tr>
<td>C. No</td>
<td>Yes</td>
</tr>
<tr>
<td>D. Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Answer (C) is correct. **REQUIRED:** The responsibility of an accountant in a SSARSSs engagement. **DISCUSSION:** Management is responsible for selecting the financial reporting framework. The accountant is responsible for (1) determining whether the framework is acceptable and (2) selecting the procedures used in the engagement. Answer (A) is incorrect. The accountant is responsible for selecting the procedures used in the engagement. Answer (B) is incorrect. Management is responsible for selecting the financial reporting framework, and the accountant is responsible for selecting the procedures used in the engagement. Answer (D) is incorrect. Management is responsible for selecting the financial reporting framework, and the accountant is responsible for determining whether the framework selected is acceptable.

19.2 Preparation of Financial Statements (AR-C 70)

4. Which of the following is a true statement about preparing financial statements in accordance with SSARSSs?

A. The accountant must be independent.
B. The accountant’s name must appear on the financial statements.
C. The financial framework must be GAAP.
D. Management must accept responsibility for the financial statements.

Answer (D) is correct. **REQUIRED:** The true statement about preparing financial statements under SSARSSs. **DISCUSSION:** Management is responsible for (1) selection of the reporting framework, (2) internal control over financial reporting, (3) prevention and detection of fraud, (4) ensuring compliance with laws and regulations, and (5) maintaining accurate and complete information. Thus, management must accept responsibility for the financial statements. Answer (A) is incorrect. The accountant need not be independent of the entity, and no disclosure is made if independence is lacking. Answer (B) is incorrect. AR-C 70 does not require an accountant’s name to be identified or associated with the financial statements. But it also does not prohibit the identification of the accountant if a disclaimer is included with the financial statements. Answer (C) is incorrect. The statements may be prepared using any acceptable financial reporting framework.

5. In accordance with SSARSSs, which of the following is an accurate comparison of a preparation service with a compilation service?

A. Both services require a full set of notes to be presented with the financial statements.
B. Only a compilation service requires an engagement letter.
C. Both services allow the financial statements to be released to outside users.
D. Both services require a report to be presented by the accountant.

Answer (C) is correct. **REQUIRED:** The accurate comparison of a preparation service with a compilation service. **DISCUSSION:** SSARSSs allows release of financial statements for a preparation, compilation, or review service. Answer (A) is incorrect. Neither a preparation nor a compilation requires management to present appropriate note disclosures. Answer (B) is incorrect. All SSARSSs engagements require the accountant to obtain an engagement letter or other suitable form of written agreement. Answer (D) is incorrect. The preparation service does not require the accountant to present a report.
6. An accountant may complete an engagement to prepare financial statements under SSARSs even if

A. The accountant lacks professional competence.
B. Management uses an unacceptable financial reporting framework.
C. Management does not accept responsibility for the financial statements.
D. The accountant is not independent.

Answer (D) is correct.

REQUIRED: The item not a condition for accepting a preparation engagement.

DISCUSSION: The accountant need not (1) be independent or (2) determine whether (s)he is independent to prepare financial statements under SSARSs.

Answer (A) is incorrect. The accountant must have or be able to obtain professional competence to complete the engagement. Answer (B) is incorrect. The accountant must determine whether management has selected an acceptable financial reporting framework. Answer (C) is incorrect. The accountant must obtain management’s agreement that it acknowledges and understands its responsibilities for the financial statements.

7. In a preparation engagement, the financial statements should include a statement such as

A. “No assurance is provided.”
B. “Use at your own risk.”
C. “No accountant’s report is presented.”
D. “For management’s use only.”

Answer (A) is correct.

REQUIRED: The statement in the financial statements when a preparation engagement is performed.

DISCUSSION: A notation on each page (including notes) of financial statements prepared by an accountant should state, “No assurance is provided.” The statement is intended to avoid misunderstanding of the accountant’s involvement.

Answer (B) is incorrect. The financial statements should state, “No assurance is provided.” Answer (C) is incorrect. A preparation service does not result in an accountant’s report. But the lack of a report is not noted on the statements. Answer (D) is incorrect. Prepared financial statements may be released to users other than management.

19.3 Compilation of Financial Statements (AR-C 80)

8. Compiled financial statements of a nonissuer intended for third-party use should be accompanied by a report stating that

A. The scope of the accountant’s procedures has not been restricted in testing the financial information that is the representation of management.
B. The accountant assessed the accounting principles used and significant estimates made by management.
C. The accountant does not express an opinion or any other form of assurance on the financial statements.
D. A compilation consists principally of inquiries of entity personnel and analytical procedures applied to financial data.

Answer (C) is correct.

REQUIRED: The language included in a compilation report.

DISCUSSION: A compilation report contains a disclaimer stating that the accountant has not audited or reviewed the financial statements and does not express an opinion or any other form of assurance on them.

Answer (A) is incorrect. A compilation does not entail testing the financial information. Answer (B) is incorrect. A financial statement audit, not a compilation, involves assessing the accounting principles used and the estimates made by management. Answer (D) is incorrect. A review, not a compilation, consists principally of inquiries and analytical procedures.

9. When compiling a nonissuer’s financial statements, an accountant is least likely to

A. Perform analytical procedures designed to identify relationships that appear to be unusual.
B. Read the compiled financial statements and consider whether they appear to include adequate disclosure.
C. Omit substantially all of the disclosures required by generally accepted accounting principles.
D. Issue a compilation report on one or more, but not all, of the basic financial statements.

Answer (A) is correct.

REQUIRED: The procedure least likely to be performed in a compilation.

DISCUSSION: In a compilation engagement, the accountant is not required to make inquiries or perform analytical or other procedures to verify, corroborate, or review information supplied by the entity. However, analytical procedures are necessary in review and audit engagements.

Answer (B) is incorrect. The accountant should read the compiled statements and consider whether they are free from obvious material errors, including inadequate disclosure. Answer (C) is incorrect. A compilation may omit substantially all disclosures required by the applicable reporting framework, provided the omission is clearly indicated in the report and, to the accountant’s knowledge, is not done to mislead. Answer (D) is incorrect. An accountant may issue a compilation report on one or more, but not all, of the basic financial statements.
19.4 Review of Financial Statements (AR-C 90)

10. Which of the following should be the first step in reviewing the financial statements of a nonissuer?

A. Comparing the financial statements with statements for comparable prior periods and with anticipated results.
B. Completing a series of inquiries concerning the entity’s procedures for recording, classifying, and summarizing transactions.
C. Obtaining a general understanding of the entity’s organization, its operating characteristics, and its products or services.
D. Applying analytical procedures designed to identify relationships and individual items that appear to be unusual.

Answer (C) is correct.

REQUIRED: The first step in reviewing the financial statements of a nonissuer.

DISCUSSION: When a departure from GAAP precludes an unmodified review report, and modification of the standard report is sufficient to disclose the departure, the accountant should add an additional paragraph to the report disclosing the departure, including its effects on the financial statements if they have been determined by management or are known as the result of the accountant’s procedures. The paragraph should have a heading such as “Known Departure From Accounting Principles Generally Accepted in the United States of America.”

Answer (A) is incorrect. Unless an audit has been conducted, an opinion may not be expressed. If modification of the report is not adequate to indicate the deficiencies, the accountant should withdraw from the engagement. Answer (B) is incorrect. The accountant provides limited assurance in a review report. Answer (C) is incorrect. A review report need not be limited in distribution.

11. 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.

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-C 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 performed 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.

12. During an engagement to review the financial statements of a nonissuer, an accountant becomes aware that several leases that should be capitalized are not capitalized. The accountant considers these leases to be material to the financial statements. The accountant decides to modify the standard review report because management will not capitalize the leases. Under these circumstances, the accountant should

A. Express an adverse opinion because of the departure from GAAP.
B. Express no assurance of any kind on the entity’s financial statements.
C. Emphasize that the financial statements are for limited use only.
D. Disclose the departure from GAAP in a separate paragraph of the accountant’s report.

Answer (D) is correct.

REQUIRED: The modification of a review report for a departure from GAAP.

DISCUSSION: In a review, the accountant expresses limited assurance concerning the financial statements. In performing the review, the accountant should first obtain an understanding of the entity and the entity’s industry. This will provide a foundation for completing the review.

Answer (A) is incorrect. Comparing the financial statement with statements for comparable prior periods and with anticipated results is an analytical procedure, which is performed after obtaining an understanding of the business. Answer (B) is incorrect. Completing a series of inquiries concerning the entity’s procedures for recording, classifying, and summarizing transactions is performed after obtaining an understanding of the entity’s business. Answer (D) is incorrect. Applying analytical procedures designed to identify relationships and individual items that appear to be unusual is done after obtaining an understanding of the business.
13. Each page of a nonissuer’s financial statements reviewed by an accountant may 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 that may be on each page of financial statements reviewed by an accountant.

**DISCUSSION:** The reviewed statements may become unattached from the review report. Thus, the accountant may consider including a reference to the report on each page of the statements. An example is “See Accountant’s Review Report” (AR-C 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.

19.5 Engagements to Apply Agreed-Upon Procedures (AT-C 215)

14. Limited assurance may be expressed when a practitioner is requested to apply agreed-upon procedures to specified elements of a financial statement. The accountant may include the following reference:

<table>
<thead>
<tr>
<th>Elements of a Financial Statement</th>
<th>Accounts of a Financial Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>B. Yes</td>
<td>No</td>
</tr>
<tr>
<td>C. No</td>
<td>No</td>
</tr>
<tr>
<td>D. No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Answer (C) is correct.

**REQUIRED:** The report in which limited assurance may be expressed.

**DISCUSSION:** The practitioner does not express an opinion or limited assurance. Instead, the practitioner’s report on agreed-upon procedures should be in the form of procedures and findings.

15. A practitioner may accept an agreed-upon procedures engagement to calculate the rate of return on a specified investment and verify that the percentage agrees with the percentage in an identified schedule provided that

A. The practitioner’s report does not enumerate the procedures performed.
B. The practitioner accepts responsibility for the sufficiency of the procedures.
C. Use of the practitioner’s report is restricted.
D. The practitioner is also the entity’s continuing auditor.

Answer (C) is correct.

**REQUIRED:** The condition of an engagement to apply agreed-upon procedures.

**DISCUSSION:** An independent practitioner may accept such an engagement if (1) the specified parties agree to the procedures and take responsibility for their sufficiency, (2) the subject matter is subject to reasonably consistent measurement, (3) evidence is expected to exist providing a reasonable basis for the findings, (4) the use of the report is restricted, and (5) other conditions are met. The report should state that it is intended solely for the information and use of the specified parties and is not intended to be used and should not be used by anyone other than these specified parties.

Answer (A) is incorrect. The procedures performed must be enumerated. Answer (B) is incorrect. The client or specified parties take responsibility for the sufficiency of the procedures. Answer (D) is incorrect. The practitioner need not be a continuing auditor.

19.6 Financial Forecasts and Projections (AT-C 305)

16. An examination of a financial forecast is a professional service that involves

A. Compiling or assembling a financial forecast that is based on management’s assumptions.
B. Restricting the use of the practitioner’s report to management and the board of directors.
C. Assuming responsibility to update management on key events for 1 year after the report’s date.
D. Evaluating the preparation of a financial forecast and the support underlying management’s assumptions.

Answer (D) is correct.

**REQUIRED:** The accountant’s responsibility in an examination of a financial forecast.

**DISCUSSION:** An examination of a financial forecast involves evaluating the preparation of the statements, the support underlying the assumptions, and the presentation of the statements for conformity with AICPA guidelines (AT-C 305).

Answer (A) is incorrect. An examination of a financial forecast involves providing assurance on the representations of management. Answer (B) is incorrect. An examination of a financial forecast need not be limited in its use. Answer (C) is incorrect. The practitioner need not assume responsibility to update management on key events after the issuance of the report.
Given one or more hypothetical assumptions, a responsible party may prepare, to the best of its knowledge and belief, an entity's expected financial position, results of operations, and cash flows. Such prospective financial statements are known as

A. Pro forma financial statements.
B. Financial projections.
C. Partial presentations.
D. Financial forecasts.

**Answer (B) is correct.**

**REQUIRED:** The PFSs based on one or more hypothetical assumptions.

**DISCUSSION:** PFSs include forecasts and projections. The difference between a forecast and a projection is that only the second is based on one or more hypothetical assumptions, which are conditions or actions not necessarily expected to occur.

Answer (A) is incorrect. Pro forma statements are essentially historical, not prospective, statements. Answer (C) is incorrect. Partial presentations are not PFSs. They do not meet the minimum presentation guidelines. Answer (D) is incorrect. A financial projection, not a financial forecast, contains one or more hypothetical assumptions.

### 19.7 Reporting on Pro Forma Financial Information (AT-C 310)

**18.** In a compilation engagement, each of the following items should be included in the presentation of pro forma financial statements except

A. The significant assumptions used in developing the pro forma information.
B. The source of the historical information on which the pro forma information is based.
C. An indication that the pro forma information is not necessarily indicative of results.
D. All direct and indirect effects attributed to the related transaction.

**Answer (D) is correct.**

**REQUIRED:**

**DISCUSSION:** The presentation of pro forma financial information need not include all direct and indirect effects attributed to the related transactions. It should include material direct effects.

Answer (A) is incorrect. The presentation should describe the significant assumptions used in developing the pro forma adjustments and any significant uncertainties about these assumptions. Answer (B) is incorrect. Pro forma financial information should be labeled as such to distinguish it from historical financial information. Thus presentation should describe the source of the historical financial information on which it is based. Answer (C) is incorrect. The pro forma financial information is not necessarily indicative of the results that would have been attained had the transaction actually taken place earlier.

**19.** A practitioner’s report on a review of pro forma financial information should include a

A. Statement that the entity’s internal control was not relied on in the review.
B. Disclaimer of opinion on the financial statements from which the pro forma financial information is derived.
C. Caveat that it is uncertain whether the transaction or event reflected in the pro forma financial information will ever occur.
D. Reference to the financial statements from which the historical financial information is derived.

**Answer (D) is correct.**

**REQUIRED:** The statement that should be included in a review of pro forma financial information.

**DISCUSSION:** A practitioner’s report on PFFI should include (1) an identification of the pro forma information, (2) a reference to the financial statements from which the historical financial information is derived and a statement as to whether such financial statements were audited or reviewed, (3) a statement that the review was made in accordance with standards established by the AICPA, (4) a caveat that a review is substantially less in scope than an examination and that no opinion is expressed, (5) a separate paragraph explaining the objective of PFFI and its limitations, and (6) the practitioner’s conclusion providing limited assurance.

Answer (A) is incorrect. The report should not mention internal control. Answer (B) is incorrect. The practitioner should disclaim an opinion on the pro forma financial information. Answer (C) is incorrect. The transaction may already have occurred.
20. Practitioner was engaged by a group of pension recipients to apply agreed-upon procedures to financial data supplied by Pension written assertion about its compliance with contractual requirements to pay royalties. The report on these agreed-upon procedures should contain a(n)

A. Disclaimer of opinion about the fair presentation of Employer's financial statements.
B. List of the procedures performed (or reference to the) and Practitioner's findings.
C. Opinion about the effectiveness of Employer's internal control over pension payments.
D. Acknowledgment that the sufficiency of the procedures is solely Practitioner's responsibility.

Answer (B) is correct.

**REQUIRED:** The statement in a report on a compliance attestation engagement to apply agreed-upon procedures.

**DISCUSSION:** The practitioner's report should be in the form of procedures and findings but should not provide any assurance about whether the entity is in compliance or whether the responsible party's assertion is fairly stated (AT-C 315).

Answer (A) is incorrect. The report should not contain a disclaimer of opinion on the fair presentation of Employer's financial statements. However, it should contain a paragraph stating that the independent accountant was not engaged to and did not perform an examination of the financial data related to the written assertion about compliance with contractual requirements to make pension payments. It also should state that (1) the objective of an examination would have been an expression of opinion on compliance with the specified requirements, and (2) no such opinion is expressed. Answer (C) is incorrect. An agreed-upon procedures engagement typically results in a list of the procedures performed and related findings, not an opinion. Answer (D) is incorrect. The specified parties who agreed to the procedures are responsible for their sufficiency.
### Appendix A – Auditing Authoritative Pronouncements Cross-References

**Page 458, SSAEs and Other Standards and References:**

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<th>Standards on Standards for Attestation Engagements</th>
<th>Other Standards and References</th>
</tr>
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<tbody>
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<td>2 AICPA <em>Code of Professional Conduct</em></td>
</tr>
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<td>AT-50 AT-C 205 1 SSAE Hierarchy</td>
<td>2 Sarbanes-Oxley Act of 2002</td>
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<td>AT-101 AT-C 210 1 Attest Engagements</td>
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</tr>
<tr>
<td>AT-601 AT-C 315 1, 19 Compliance Attestation</td>
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[...]

- Concepts Common to All Attestation Engagements
- Examination Engagements
- Review Engagements
- Prospective Financial Information
- Relevant to User Entities’ Internal Control Over Financial Reporting
- Not clarified