

Preparation vs Compilation Services with Plain Paper Engagements

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What is a Plain Paper Statement?



► Plain Paper
statements are
unaudited,
unverified
financial
statements

Preparation vs Compilation

- ▶ Preparation - An engagement to prepare financial statements is a nonattest service and does not require a determination about whether the accountant is independent of the entity. In addition, an engagement to prepare financial statements does not require the accountant to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements or otherwise report on the financial statements.
- ▶ Compilation - Because a compilation engagement is not an assurance engagement, a compilation engagement does not require the accountant to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements.

Preparation of Financial Statements

- ▶ Typically, preparation of financial statements is performed in conjunction with bookkeeping or transaction processing services and can be monthly, quarterly or annually. The financial statements are prepared in accordance with an acceptable financial reporting framework.
- ▶ The financial statement preparation service is primarily intended for the client's own use to have current information on the financial standing of their business and to make decisions accordingly.
- ▶ Financial statements should include a notice that "no assurance is provided" on the financial statements. Because statements are prepared directly from the records provided by the client, the CPA will not verify the accuracy or completeness of the information and is not required to issue a formal report on the financial statements.

Compilation

- ▶ Intended for use by lenders and other outside parties who may appreciate the business's association with a CPA without requiring a level of assurance on the accuracy of financial statements. Typically appropriate when initial or lower amounts of financing or credit are sought or significant collateral is in place CPA issues compilation repo

Compilation

- ▶ Compilation of financial statements have explicit requirements for performing this service. (Ex: if the CPA is not independent from ownership, management and other circumstances in their relationship to you and your business, he/she is required to disclose the impairment to her independence in his/her compilation report.)
- ▶ The compilation report is the first page before the actual financial statements and is written by the CPA on firm letterhead. The CPA is also required to read the financial statements in light of the financial reporting framework being used and consider whether the financial statements appear appropriate in form and are free from obvious material misstatements.
- ▶ A misstatement is a difference between a reported financial statement item and that which is required for the item to be reported in accordance with the applicable financial reporting framework. A misstatement may result from fraud or error.
- ▶ A material misstatement is one where the severity or nature of the difference (i.e., misstatement) would cause a user to form an incorrect conclusion about a financial statement.

Compilation

- ▶ The CPA does not obtain any assurance for a compilation because he/she is not required to verify the accuracy or completeness of the information provided or otherwise gather evidence for the purposes of expressing an audit opinion or a review conclusion.
- ▶ The compilation report states that the CPA did not audit or review the financial statements and accordingly does not express an opinion, a conclusion or provide any assurance on them.
- ▶ A compilation is typically appropriate when initial or lower amounts of financing or credit are sought or there is significant collateral in place.

SSARS 21

- ▶ *SSARS No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification*, was issued in October 2014. SSARS No. 21 represents the AICPA's Accounting and Review Services Committee's efforts to clarify and revise the standards for reviews, compilations, and engagements to prepare financial statements.
- ▶ SSARS 21, allows CPAs to prepare financial statements from the unaudited financial books and records.
- ▶ Section 70 of SSARS 21 "applies when an accountant in public practice is engaged to prepare financial statements." It also states that the procedures may be used and adapted to the specific engagement circumstances in the preparation of other prospective or historical financial data.

SSARS 21

▶ SSARS 21, while ostensibly requiring no verification similar to that required in an audit or review, does require some procedures similar to those for a compilation, and failure to follow them can lead to allegations of insufficient performance. The standard also sets the stage for third parties to profess that they placed greater reliance on the financial statements because a CPA was involved in their preparation.

SSARS 21

▶ Section 70.04 states that "an engagement to prepare financial statements does not require the accountant to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements or otherwise report on the financial statements."

SSARS 21

▶ SARS 21 addresses the need for an engagement letter, including management's agreement that either each page of the financial statements will include a statement that no assurances are given on those statements or the CPA will be required to issue a disclaimer that makes the lack of such assurances clear. Moreover, section 70 requires the accountant to comply with section 60, "General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services."

Legal Considerations

- ▶ The legal liability of CPAs who purport to perform SSARS 21 services could turn on whether those CPAs actually performed procedures beyond what the standard contemplates—in which case they will be beyond the legal protection that the standard attempts to create.
- ▶ In the case, *1136 Tenants' Corp.*, the accountant's testimony that certain services performed went beyond the scope of "write-up" work and the time records revealing that the accountants examined bank statements were sufficient to create an issue of fact as to the scope of services actually performed, with the accountants ultimately being held to the standard of having been engaged to perform an audit.
- ▶ By SSARS 21's own terms, CPAs who undertake to do more in terms of verification or analysis could find themselves being measured against the higher standards applicable to compilation or review engagements.

1136 TENANTS' CORP. v. MAX ROTHENBERG & CO. (1971)

- ▶ Court found that Defendant was engaged to audit and not merely "write-up" plaintiff's books and records and that the procedures performed by defendant were "incomplete, inadequate and improperly employed". One of defendant's senior partners admitted at the trial that defendant performed services for plaintiff which went beyond the scope of a "write-up" and that it actually performed some auditing procedures for plaintiff. Defendant's work sheets indicate that defendant did examine plaintiff's bank statement, invoices and bills and, in fact, one of the work sheets is entitled "Missing Invoices 1/1/63-12/31/63". That sheet alone indicates invoices missing from the records of Riker & Co. which totaled more than \$44,000. Utilization of the simplest audit procedures would have revealed Riker's defalcations. Moreover, even if defendant were hired to perform only "write-up" services, it is clear, beyond dispute, that it did become aware that material invoices purportedly paid by Riker were missing, and, accordingly, had a duty to at least inform plaintiff of this. But even this it failed to do. Defendant was not free to consider these and other suspicious circumstances as being of no significance and prepare its financial reports as if same did not exist.
- ▶ The questions of fact presented in this case were ably discussed in the decision of the court below and there is no reason why we should interfere with the result reached by that court.

Key Reminders

- The client-signed engagement letter. Should explicitly state that the client is responsible for—
- ▶ the selection of the reporting framework used,
 - ▶ the internal controls related to the preparation and presentation of the financial statements,
 - ▶ the prevention and detection of fraud,
 - ▶ compliance with relevant laws and regulations,
 - ▶ the accuracy and completeness of the underlying financial records and documents and the significant judgments required for the preparation of the financial statements,
 - ▶ providing the CPA with access to information needed to prepare the financial statements, and
 - ▶ unrestricted access to client personnel.

Key Reminders

CPAs who decide to proceed with a financial statement preparation engagement should consider the following steps to reduce the engagement risk and comply with the standards:

- ▶ Perform and document client acceptance and retention procedures
- ▶ Adhere to engagement quality control standards
- ▶ Obtain a written engagement letter clearly setting forth the client's and the CPA's responsibilities
- ▶ Meet with management to be sure that the representations are clearly understood, and document the meeting
- ▶ Follow up on any unusual or suspicious balances, activity, or unavailable data encountered
- ▶ Avoid including the name of the CPA in the legend required on each page of the prepared "plain paper" financial statements.

THANK YOU!

QUESTIONS?????

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AR-C Section 70

Preparation of Financial Statements

Source: SSARS No. 21; SSARS No. 23.

Effective for the preparation of financial statements for periods ending on or after December 15, 2015, unless otherwise indicated.

Introduction

Scope of This Section

.01 This section applies when an accountant in public practice is engaged to prepare financial statements or prospective financial information. (Ref: par. .A1–.A2).

This section may also be applied, adapted as appropriate in the circumstances, to the preparation of other historical financial information. (Ref: par. .A3)

This section does not apply when an accountant prepares financial statements or prospective financial information

- and is engaged to perform an audit, review, or compilation of those financial statements,
- solely for submission to taxing authorities,
- for inclusion in written personal financial plans prepared by the accountant,
- in conjunction with litigation services that involve pending or potential legal or regulatory proceedings, or
- in conjunction with business valuation services.^[1]

[As amended, effective for prospective financial information prepared on or after May 1, 2017, by SSARS No. 23.]

.02 The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this section) is determined based on services the client requests the accountant to perform and requires the accountant to apply professional judgment. (Ref: par. .A4)

The Preparation Engagement

.03 An engagement to prepare financial statements is a nonattest service and does not require a determination about whether the accountant is independent of the entity. (Ref: par. .A5)

.04 In addition, an engagement to prepare financial statements does not require the accountant to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements or otherwise report on the financial statements.

^[1] [Footnote deleted by the issuance of SSARS No. 23, October 2016.]

Effective Date

.05 This section is effective for the preparation of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

Objective

.06 The objective of the accountant is to prepare financial statements pursuant to a specified financial reporting framework.

Definitions

.07 For purposes of Statements on Accounting and Review Standards (SSARSs), the following terms have the meanings attributed as follows:

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

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

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

- a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.
- c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission). (Ref: par. .A6)
- d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.
- e. **Other basis.** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

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

Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the

strategic direction of an entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel (for example, executive members of a governance board or an owner-manager).

Requirements

General Principles for Performing Engagements to Prepare Financial Statements

.08 In addition to complying with this section, an accountant is required to comply with section 60, *General Principles For Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*.

Acceptance and Continuance of Client Relationships and Engagements to Prepare Financial Statements

.09 If the accountant is not satisfied with any of the matters set out in paragraph .26 of section 60 as preconditions for accepting an engagement to prepare financial statements, the accountant should discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the accountant about those matters, the accountant should not accept the proposed engagement.

Agreement on Engagement Terms

.10 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement between the parties and should include the following: (Ref: par. .A7–.A11)

- a. The objective of the engagement
- b. The responsibilities of management set forth in paragraph .26c of section 60
- c. The agreement of management that each page of the financial statements will include a statement indicating that no assurance is provided on the financial statements or the accountant will be required to issue a disclaimer that makes clear that no assurance is provided on the financial statements. (Ref: par. .A13)
- d. The responsibilities of the accountant
- e. The limitations of the engagement to prepare financial statements
- f. Identification of the applicable financial reporting framework for the preparation of financial statements
- g. Whether the financial statements are to contain a known departure or departures from the applicable financial reporting framework (including inadequate disclosure) or omit substantially all disclosures required by the applicable financial reporting framework

[As amended, effective October 2016, by SSARS No. 23.]

.11 The engagement letter or other suitable form of written agreement should be signed by

- a. the accountant or the accountant's firm and
- b. management or those charged with governance, as appropriate. (Ref: par. .A10)

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

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

Preparing the Financial Statements

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

.14 The accountant should ensure that a statement is included on each page of the financial statements indicating, at a minimum, that "no assurance is provided" on the financial statements. If the accountant is unable to include a statement on each page of the financial statements, the accountant should (Ref: par. .A13)

- a. issue either a disclaimer that makes clear that no assurance is provided on the financial statements; (Ref: par. .A14)
- b. perform a compilation engagement in accordance with section 80, *Compilation Engagements*; or
- c. withdraw from the engagement.

[As amended, effective October 2016, by SSARS No. 23.]

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

.16 If, during the preparation of financial statements, the accountant assists management with significant judgments regarding amounts or disclosures to be reflected in the financial statements, the accountant should discuss those judgments with management so management understands the significant judgments reflected in financial statements and accepts responsibility for those judgments. (Ref: par. .A16 and .A20)

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

.18 When, after discussions with management, the accountant prepares financial statements that contain a known departure or departures from the applicable financial reporting framework (including inadequate disclosure), the accountant should disclose the material misstatement or misstatements in the financial statements. (Ref: par. .A17)

Preparing Prospective Financial Information

.19 The summary of significant assumptions is essential to the user's understanding of prospective financial information. Accordingly, the accountant should not prepare prospective financial information that excludes disclosure of the summary of significant assumptions. Also, the accountant should not prepare a financial projection that excludes either (a) an identification of the hypothetical assumptions or (b) a description of the limitations on the usefulness of the presentation. [Paragraph added, effective for prospective financial information prepared on or after May 1, 2017, by SSARS No. 23.]

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

.20 When, after discussions with management, the accountant prepares financial statements that omit substantially all disclosures required by the applicable financial reporting framework, the accountant should disclose such omission in the financial statements. (Ref: par. .A18) [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.21 The accountant should not prepare financial statements that omit substantially all disclosures required by the financial reporting framework if the accountant becomes aware that the omission of substantially all disclosures was undertaken with the intention of misleading users of such financial statements. (Ref: par. .A19) [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Documentation in a Preparation Engagement

.22 The accountant should prepare documentation in connection with each preparation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following: (Ref: par. .A20)

- a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs .10–.11
- b. A copy of the financial statements that the accountant prepared

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.23 If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Application and Other Explanatory Material

Scope of This Section (Ref: par. .01–.02)

.A1 If the accountant is engaged to prepare prospective financial information, references in this section to *financial statements* are to be taken as a reference to prospective financial information. [Paragraph added, effective for

prospective financial information prepared on or after May 1, 2017, by SSARS No. 23.]

.A2 AICPA Guide *Prospective Financial Information* (the guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, "Preparation Guidelines;" chapter 7, "Reasonably Objective Basis;" chapter 8, "Presentation Guidelines;" and chapter 9, "Illustrative Prospective Financial Statements," of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information. The guide provides suitable criteria for the preparation and presentation of prospective financial information. The accountant is not prohibited from preparing prospective financial information prepared and presented in accordance with other suitable criteria. [Paragraph added, effective for prospective financial information prepared on or after May 1, 2017, by SSARS No. 23.]

.A3 Other historical financial information to which this section may be applied includes the following:

- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
- Supplementary information
- Required supplementary information
- Pro forma financial information

[Paragraph renumbered and amended, effective October 2016, by SSARS No. 23.]

.A4 The appendix, "Preparation of Financial Statements Versus Assistance in Preparing Financial Statements," provides examples of services that the accountant may be engaged to perform and whether this section would apply. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

The Preparation Engagement (Ref: par. .03)

.A5 The "Nonattest Services" subtopic of the "Independence Rule" (ET sec. 1.295) addresses the accountant's considerations with respect to independence when performing nonattest services for attest clients. For example, the accountant may prepare monthly or other interim financial statements and be engaged to perform an audit, review, or compilation engagement with respect to the annual financial statements. The accountant needs to be aware that the performance of the preparation services may impair independence unless the safeguards described in this subtopic are met. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Definitions (Ref: par. .07)

.A6 Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on GAAP but does not comply with all the requirements of GAAP. Such frameworks are regulatory-bases of accounting, as defined in paragraph .07. In some circumstances, however, the cash- or tax-basis of accounting may be permitted

by a regulator. For purposes of this section, the cash- and tax-bases of accounting are not regulatory-bases of accounting. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Agreement on Engagement Terms (Ref: par. .10–.11)

.A7 Both management and the accountant have an interest in documenting the agreed-upon terms of the engagement to prepare financial statements before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or may expect the accountant to protect management against certain risks or to perform certain functions, including those that are management's responsibility. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A8 When a third party has contracted for an engagement to prepare the entity's financial statements, agreeing the terms of the engagement with management of the entity is necessary in order to establish that the preconditions for an engagement to prepare financial statements are present. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A9 The understanding with management regarding the services to be performed for engagements to prepare financial statements is required by paragraph .10 to be in a documented form, and, accordingly, an oral understanding is insufficient. An engagement letter is the most common, and usually the most convenient, method for documenting the understanding with management regarding the services to be performed for engagements to prepare financial statements. [Paragraph renumbered and amended, effective October 2016, by SSARS No. 23.]

.A10 The roles of management and those charged with governance in agreeing upon the terms of the engagement to prepare financial statements for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity's structure, the agreement may be with management, those charged with governance, or both. Nonetheless, when the agreement on the terms of engagement is only with those charged with governance in accordance with paragraph .26c of section 60, the accountant is required to obtain management's agreement that it acknowledges and understands its responsibilities. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A11 An illustrative example of an engagement letter for an engagement to prepare financial statements is presented in the exhibit, "Illustrative Engagement Letter." [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework (Ref: par. .12)

.A12 The requirement that the accountant obtain an understanding of the financial reporting framework adopted by management intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management does not prevent the accountant from accepting an engagement to prepare financial statements for an entity in an industry in which the accountant has no previous experience. The accountant may obtain such understanding, for example, by consulting AICPA guides, industry

publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals who are knowledgeable about the industry. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Preparing the Financial Statements (Ref: par. .10, .14–.16, and .18)

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

- No assurance is provided on these financial statements.
- These financial statements have not been subjected to an audit or review or compilation engagement, and no assurance is provided on them.

Other statements that convey that no assurance is provided on the financial statements would also be acceptable. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

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

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

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date]

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A15 A description of the special purpose framework is usually placed next to or under the title of the financial statements (for example "statement of assets and liabilities—modified cash basis"). However, the description may be placed elsewhere in the financial statements. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A16 In the preparation of financial statements, the accountant may provide assistance to management with significant judgments (for example, the accountant may advise management on alternative accounting policies that are significant to the financial statements or help management with significant judgments regarding material accounting estimates). [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A17 The disclosure of the material misstatement or misstatements may be made on the face of the financial statements or in a note to the financial statements. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework (Ref: par. .20–.21)

.A18 The disclosure of the omission of substantially all disclosures required by the applicable financial reporting framework may be made on the face of the financial statements or in a selected note to the financial statements. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A19 The accountant may prepare financial statements that include disclosures about only a few matters in the notes to the financial statements. Such disclosures may be labeled "Selected Information—Substantially All Disclosures Required by [*the applicable financial reporting framework*] Are Not Included." [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Documentation in a Preparation Engagement (Ref: par. .16 and .22)

.A20 Documentation may include documentation regarding significant consultations or significant professional judgments made throughout the engagement. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A21

Appendix—Preparation of Financial Statements Versus Assistance in Preparing Financial Statements (Ref: par. .A4)

The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this section) is determined based on the services the client requests the accountant to perform and requires the accountant to apply professional judgment. The following table provides examples of services that the accountant may be engaged to perform and whether section 70 would apply. The table is not intended to be all inclusive, and professional judgment would still need to be applied.

<i>Examples of Services for Which This Section Applies</i>	<i>Examples of Accountant Services for Which This Section Does Not Apply</i>
Preparation of financial statements prior to audit or review by another accountant	Preparation of financial statements when the accountant is engaged to perform an audit, review, or compilation of such financial statements
Preparation of financial statements for an entity to be presented alongside the entity's tax return	Preparation of financial statements with a tax return solely for submission to taxing authorities
Preparation of personal financial statements for presentation alongside a financial plan	Personal financial statements that are prepared for inclusion in written personal financial plans prepared by the accountant
	Financial statements prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings
	Financial statements prepared in conjunction with business valuation services
	Maintaining depreciation schedules
	Preparing or proposing certain adjustments, such as those applicable to deferred income taxes, depreciation, or leases
Preparation of single financial statements, such as a balance sheet or income statement or financial statements with substantially all disclosures omitted	Drafting financial statement notes
Using the information in a general ledger to prepare financial statements outside of an accounting software system	Entering general ledger transactions or processing payments (general bookkeeping) in an accounting software system

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A22

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

The following is an example of an engagement letter for an engagement to prepare financial statements prepared in accordance with accounting principles generally accepted in the United States of America. This engagement letter is intended as an illustration that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances and is drafted to refer to the preparation of financial statements for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

To the appropriate representative of ABC Company:¹

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

Our Responsibilities

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

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

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

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

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

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

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

Management Responsibilities

The engagement to be performed is conducted on the basis that management acknowledges and understands that our role is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America. Management has the following overall responsibilities that are fundamental to our undertaking the engagement to prepare your financial statements in accordance with SSARSs:

- a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements
- b. 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
- c. The prevention and detection of fraud
- d. To ensure that the entity complies with the laws and regulations applicable to its activities
- e. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement to prepare financial statements
- f. To provide us with:
 - i. Documentation, and other related information that is relevant to the preparation and presentation of the financial statements,
 - ii. Additional information that may be requested for the purpose of the preparation of the financial statements, and
 - iii. Unrestricted access to persons within ABC Company of whom we determine necessary to communicate.

The financial statements will not be accompanied by a report. However, you agree that the financial statements will clearly indicate that no assurance is provided on them.

[If the accountant expects to issue a disclaimer, instead of the preceding paragraph, the following may be added:

As part of our engagement, we will issue a disclaimer that will state that the financial statements were not subjected to an audit, review, or compilation engagement by us and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.]

Other Relevant Information

Our fees for these services. . . .

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

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

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and Title]

[Date]

[Revised, February 2015, to include additional required engagement letter elements. Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

AR-C Section 80

Compilation Engagements

Source: SSARS No. 21; SSARS No. 23.

Effective for compilations of financial statements for periods ending on or after December 15, 2015, unless otherwise indicated.

Introduction

Scope of This Section

.01 This section applies when the accountant is engaged to perform a compilation of financial statements, prospective financial information, pro forma financial information, or other historical financial information. (Ref: par. .A1–.A4).^[1] [As amended, effective for compilation reports on prospective financial information dated on or after May 1, 2017, by SSARS No. 23.]

The Compilation Engagement

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

Effective Date

.03 This section is effective for compilations of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

Objective

.04 The objective of the accountant in a compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements and report in accordance with this section without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

Definitions

.05 For purposes of Statements on Accounting and Review Standards (SSARs), the following terms have the meanings attributed as follows:

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

^[1] [Footnote deleted by the issuance of SSARS No. 23, October 2016.]

entity and the objective of the financial statements or that is required by law or regulation.

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

Generally accepted accounting principles (GAAP). Reference to *generally accepted accounting principles* in SSARSs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

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

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

Misstatements also include those adjustments of amounts, classifications, presentations, or disclosures that, in the accountant's professional judgment, are necessary for the financial statements to be presented fairly, in all material respects.

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

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

- a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.
- c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission). (Ref: par. .A5)
- d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.

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

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

Supplementary information. Information presented outside the basic financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. Such information may be presented in a document containing the financial statements subjected to the compilation engagement or separate from the financial statements subjected to the compilation engagement. (Ref: par. .A6–.A7)

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

[Revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

Requirements

General Principles for Performing and Reporting on Compilation Engagements

.06 In addition to complying with this section, an accountant is required to comply with section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*.

Independence

.07 The accountant must determine whether the accountant is independent of the entity. (Ref: par. .A8)

Acceptance and Continuance of Client Relationships and Compilation Engagements

.08 As a condition for accepting an engagement to perform a compilation with respect to an entity's financial statements, in addition to the requirements in paragraph .26 of section 60, the accountant should obtain the agreement of management that it acknowledges and understands its responsibility

- a. for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework and the inclusion of all informative disclosures that are appropriate for the applicable financial reporting framework used to prepare the entity's financial statements. If the financial statements are prepared in accordance with a special purpose framework, this includes (Ref: par. .A9)

- i. a description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from GAAP, the effect of which need not be quantified, and informative disclosures similar to those required by GAAP, in the case of special purpose financial statements that contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, (Ref: par. .A28)
 - ii. a description of any significant interpretations of the contract on which the special purpose financial statements are prepared, in the case of financial statements prepared in accordance with a contractual-basis of accounting, and
 - iii. additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation.
- b. to include the accountant's compilation report in any document containing financial statements that indicates that the entity's accountant has performed a compilation engagement on such financial statements unless a different understanding is reached. (Ref: par. .A10)

.09 If the accountant is not satisfied about any of the matters set out in paragraph .26 of section 60 or paragraph .08 of this section as preconditions for accepting a compilation engagement, the accountant should discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the accountant about those matters, the accountant should not accept the proposed engagement.

Agreement on Engagement Terms

.10 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement between the parties and should include the following: (Ref: par. .A11–.A16)

- a. The objectives of the engagement
- b. The responsibilities of management set forth in paragraph .26c of section 60 and paragraph .08 of this section
- c. The responsibilities of the accountant
- d. The limitations of the compilation engagement
- e. Identification of the applicable financial reporting framework for the preparation of the financial statements
- f. The expected form and content of the accountant's compilation report and a statement that there may be circumstances in which the report may differ from its expected form and content

[As amended, effective October 2016, by SSARS No. 23.]

.11 The engagement letter or other suitable form of written agreement should be signed by

- a. the accountant or the accountant's firm and
- b. management or those charged with governance, as appropriate. (Ref: par. .A12)

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

.12 The accountant should obtain an understanding of the applicable financial reporting framework and the significant accounting policies intended to be used in the preparation of the financial statements. (Ref: par. .A17)

Compilation Procedures

.13 The accountant should read the financial statements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management and consider whether such financial statements appear to be appropriate in form and free from obvious material misstatements.

.14 If, in the course of the engagement, the accountant becomes aware that the records, documents, explanations, or other information, including significant judgments, provided by management are incomplete, inaccurate, or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information. (Ref: par. .A18)

.15 If the accountant becomes aware during the course of the engagement that

- a. the financial statements do not adequately refer to or describe the applicable financial reporting framework (Ref: par. .A19);
- b. revisions to the financial statements are required for the financial statements to be in accordance with the applicable financial reporting framework; or
- c. the financial statements are otherwise misleading (Ref: par. .A20–.A21)

the accountant should propose the appropriate revisions to management.

.16 The accountant should withdraw from the engagement and inform management of the reasons for withdrawing if (Ref: par. .A22–.A23)

- a. the accountant is unable to complete the engagement because management has failed to provide records, documents, explanations, or other information, including significant judgments, as requested, or
- b. management does not make appropriate revisions that are proposed by the accountant or does not disclose such departures in the financial statements, and the accountant determines to not disclose such departures in the accountant's compilation report.

The Accountant's Compilation Report

.17 The accountant's compilation report should be in writing and (Ref: par. .A24 and .A27)

- a. include a statement that management (owners) is (are) responsible for the financial statements.
- b. identify the financial statements that have been subjected to the compilation engagement.
- c. identify the entity whose financial statements have been subjected to the compilation engagement.
- d. specify the date or period covered by the financial statements.

- e. include a statement that the accountant performed the compilation engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA.
- f. include a statement that the accountant did not audit or review the financial statements nor was the accountant required to perform any procedures to verify the accuracy or completeness of the information provided by management and does not express an opinion, a conclusion, nor provide any assurance on the financial statements.
- g. include the signature of the accountant or the accountant's firm.
- h. include the city and state where the accountant practices. (Ref: par. .A26)
- i. include the date of the report, which should be the date that the accountant has completed the procedures required by this section.

[Revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

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

.18 Unless the entity elects to omit substantially all disclosures, the accountant should modify the compilation report when that accountant becomes aware that the financial statements do not include

- a. a description of the special purpose framework. (Ref: par. .A28)
- b. a summary of significant accounting policies. (Ref: par. .A29)
- c. an adequate description about how the special purpose framework differs from GAAP. The effects of these differences need not be quantified. (Ref: par. .A28)
- d. informative disclosures similar to those required by GAAP when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP. (Ref: par. .A31)

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

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

- a. make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when management has a choice of financial reporting frameworks in the preparation of such financial statements.
- b. describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information when the financial statements are prepared in accordance with a regulatory- or contractual-basis of accounting. (Ref: par. .A32)

.21 The accountant's compilation report on financial statements prepared in accordance with a special purpose framework should include a separate paragraph that

- a. indicates that the financial statements are prepared in accordance with the applicable special purpose framework,
- b. refers to the note to the financial statements that describes the framework, if applicable, and
- c. states that the special purpose framework is a basis of accounting other than GAAP.

Reporting When the Accountant Is Not Independent

.22 When the accountant is not independent with respect to the entity, the accountant should indicate the accountant's lack of independence in a final paragraph of the accountant's compilation report. (Ref: par. .A33–A35)

.23 If the accountant elects to disclose a description about the reasons the accountant's independence is impaired, the accountant should include all such reasons in the description.

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

.24 The summary of significant assumptions is essential to the user's understanding of prospective financial information. Accordingly, the accountant should not issue a compilation report on prospective financial information that excludes disclosure of the summary of significant assumptions. Also, the accountant should not issue a compilation report on a financial projection that excludes either (a) an identification of the hypothetical assumptions or (b) a description of the limitations on the usefulness of the presentation. [Paragraph added, effective for compilation reports on prospective financial information dated on or after May 1, 2017, by SSARS No. 23.]

.25 In addition to the reporting elements required by paragraph .17, an accountant's compilation report on prospective financial information should include statements that

- a. the forecasted or projected results may not be achieved and
- b. the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report.

[Paragraph added, effective for compilation reports on prospective financial information dated on or after May 1, 2017, by SSARS No. 23.]

.26 The accountant should not issue an accountant's compilation report on financial statements that omit substantially all disclosures required by the applicable financial reporting framework unless the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. (Ref: par. .A21) [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.27 When reporting on financial statements that omit substantially all disclosures required by the applicable financial reporting framework, the accountant should include a separate paragraph in the accountant's compilation report that includes the following elements: (Ref: par. .A36–A37)

- a. A statement that management has elected to omit substantially all the disclosures (and the statement of cash flows, if applicable)

required by the applicable financial reporting framework (or ordinarily included in the financial statements if the financial statements are prepared in accordance with a special purpose framework)

- b. A statement that if the omitted disclosures (and the statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the entity's financial position, results of operations, and cash flows (or the equivalent for presentations other than GAAP)
- c. A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.28 The omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation report like any other departure from the applicable financial reporting framework, and the nature of the departure and its effects, if known, should be disclosed in accordance with paragraphs .29–.33. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Reporting Known Departures From the Applicable Financial Reporting Framework

.29 When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and the financial statements are not revised, the accountant should consider whether modification of the standard report is adequate to disclose the departure. (Ref: par. .A39) [Paragraph renumbered and amended, effective October 2016, by SSARS No. 23.]

.30 If the accountant concludes that modification of the standard report is adequate, the departure should be disclosed in a separate paragraph of the report. The effects of the departure on the financial statements should be disclosed if such effects have been determined by management or are readily known to the accountant as the result of the accountant's procedures. [Paragraph renumbered and amended, by SSARS No. 23, October 2016.]

.31 If the effects of the departure have not been determined by management or are not readily known to the accountant as a result of the accountant's procedures, the accountant is not required to determine the effects of a departure; however, in such circumstances, the accountant should state in the report that such determination has not been made by management. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.32 If the accountant believes that modification of the compilation report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the engagement and provide no further services with respect to those financial statements. (Ref: par. .A23) [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.33 The accountant should not modify the compilation report to include a statement that the financial statements are not in conformity with the applicable financial reporting framework. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Supplementary Information That Accompanies Financial Statements and the Accountant's Compilation Report Thereon

.34 When supplementary information accompanies financial statements and the accountant's compilation report thereon, the accountant should clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information in either

- a.* a separate paragraph in the accountant's compilation report on the financial statements or
- b.* a separate report on the supplementary information.

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.35 When the accountant has performed a compilation engagement with respect to both the financial statements and the supplementary information, the accountant should include a separate paragraph in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. .A41 and .A43)

- a.* the supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements;
- b.* the supplementary information is the responsibility of management;
- c.* the supplementary information was subject to the compilation engagement; and
- d.* the accountant has not audited or reviewed the supplementary information and does not express an opinion, a conclusion, nor provide any assurance on such information.

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.36 When the accountant has performed a compilation engagement with respect to the financial statements but the supplementary information was not subject to the compilation engagement, the accountant should include a separate paragraph in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. .A42–.A43)

- a.* the supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements;
- b.* the supplementary information is the responsibility of management; and
- c.* the supplementary information was not subject to the compilation engagement and the accountant does not express an opinion, a conclusion, nor provide any assurance on such information.

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

Required Supplementary Information

.37 With regard to the requirement in paragraph .34, with respect to required supplementary information, the accountant should include a separate paragraph in the accountant's compilation report on the financial statements. The other-matter paragraph should include language to explain the following circumstances, as applicable: (Ref: par. .A44)

- a. The required supplementary information is included, and the accountant performed a compilation engagement on the required supplementary information.
- b. The required supplementary information is included, and the accountant did not perform a compilation, review, or audit on the required supplementary information.
- c. The required supplementary information is omitted.
- d. Some required supplementary information is missing, and some is presented in accordance with the prescribed guidelines. (Ref: par. .A45)
- e. The accountant has identified departures from the prescribed guidelines.
- f. The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.38 If the entity has presented all or some of the required supplementary information and the accountant did not perform a compilation engagement on the required supplementary information, the separate paragraph in the accountant's compilation report referred to in paragraph .34 should include the following elements: (Ref: par. .A46)

- a. A statement that *[identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* requires that the *[identify the required supplementary information]* be presented to supplement the basic financial statements
- b. A statement that such information, although not a part of the basic financial statements, is required by *[identify designated accounting standards-setter]*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
- c. A statement that the accountant did not perform a compilation, review, or audit on the required supplementary information and does not express an opinion, a conclusion, nor provide any assurance on the information
- d. If some of the required supplementary information is omitted:
 - i. A statement that management has omitted *[description of the missing required supplementary information]* that *[identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]* require to be presented to supplement the basic financial statements

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

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.39 If all the required supplementary information is omitted, the separate paragraph in the accountant's compilation report should include the following elements:

- a. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements
- b. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards-setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Documentation in a Compilation Engagement

.40 The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following:

- a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs .10–.11 (Ref. par. .A14 and .A16)
- b. A copy of the financial statements
- c. A copy of the accountant's report

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Application and Other Explanatory Material

Scope of This Section (Ref: par. .01)

.A1 If the accountant is engaged to perform a compilation on prospective financial information or pro forma financial information, references in this section to *financial statements* are to be taken as a reference to such other financial information. [Paragraph added, effective for compilation reports on prospective financial information dated on or after May 1, 2017, by SSARS No. 23.]

.A2 AICPA Guide *Prospective Financial Information* (the guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, "Preparation Guidelines;" chapter 7, "Reasonably Objective Basis;" chapter 8, "Presentation Guidelines;" and chapter 9, "Illustrative Prospective Financial Statements," of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information. The guide provides suitable criteria for the preparation and presentation of prospective financial information. The accountant is not prohibited from preparing prospective financial information prepared and presented in accordance with other suitable criteria. [Paragraph added, effective for compilation reports on prospective financial information dated on or after May 1, 2017, by SSARS No. 23.]

.A3 Other historical financial information to which this section applies includes the following:

- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
- Supplementary information
- Required supplementary information

[Paragraph renumbered and amended, effective for compilation reports on prospective financial information dated on or after May 1, 2017, by SSARS No. 23.]

.A4 In addition to the requirements of this section, in a compilation of pro forma financial information, the accountant is also required to adhere to the requirements of section 120, *Compilation of Pro Forma Financial Information*. [Paragraph added, effective for compilation reports on prospective financial information dated on or after May 1, 2017, by SSARS No. 23.]

Definitions (Ref: par. .05)

.A5 Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on GAAP but does not comply with all the requirements of GAAP. Such frameworks are regulatory-bases of accounting, as defined in paragraph .05. In some circumstances, however, the cash- or tax-basis of accounting may be permitted by a regulator. For purposes of this section, the cash- and tax-bases of accounting are not regulatory-bases of accounting. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A6 Supplementary information includes additional details or explanations of items in or related to the basic financial statements, consolidating information, historical summaries of items extracted from the basic financial statements, statistical data, and other material, some of which may be from sources

outside the accounting system or outside the entity. [Paragraph added to reflect conforming changes necessary due to the issuance of SSARS No. 23]

.A7 Supplementary information may be prepared in accordance with an applicable financial reporting framework, by regulatory or contractual requirements, in accordance with management's criteria, or in accordance with other requirements. [Paragraph added to reflect conforming changes necessary due to the issuance of SSARS No. 23]

Independence (Ref: par. .07)

.A8 The interpretations of the "Independence Rule" (ET sec. 1.200.001) of the AICPA Code of Professional Conduct provide authoritative guidance with respect to independence. It is in the public interest and, therefore, required by this section, that the accountant modify the accountant's compilation report when the accountant is not independent of the entity whose financial statements are the subject of the compilation engagement. The AICPA Code of Professional Conduct also defines *independence* as consisting of two elements, independence of mind and independence in appearance. Independence enhances the accountant's ability to act with integrity and be objective. Independence implies an impartiality that recognizes an obligation to be fair not only to management but also to users of the financial statements, who may rely upon the accountant's compilation report. In the absence of an interpretation of the "Independence Rule" that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Independence" interpretation (ET sec. 1.210.010). [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

Acceptance and Continuance of Client Relationships and Compilation Engagements (Ref: par. .08)

.A9 A compilation in accordance with SSARSs is conducted on the premise that management has acknowledged and understands that it has the responsibility set out in paragraph .26c of section 60. The preparation of financial statements, in whole or in part, is a nonattest service subject to the provisions of the "Nonattest Services" subtopic of the "Independence Rule" (ET sec. 1.295). To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and documenting the terms of the compilation engagement as required by paragraphs .10–.11. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A10 Documents containing financial statements that may include an indication that such financial statements have been subjected to a compilation engagement by the entity's accountant includes documents submitted to bonding companies. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

Agreement on Engagement Terms (Ref: par. .10–.11 and .40)

.A11 Both management and the accountant have an interest in documenting the terms of the compilation engagement before the commencement of the engagement to help avoid misunderstandings with respect to the engagement.

For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or perform certain functions, including those that are management's responsibility. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A12 The roles of management and those charged with governance in agreeing upon the terms of the compilation engagement for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity's structure, the agreement may be with management, those charged with governance, or both. Nonetheless, when the agreement on the terms of engagement is only with those charged with governance, in accordance with paragraph .26c of section 60, the accountant is required to obtain management's agreement that it acknowledges and understands its responsibilities. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A13 When a third party has contracted for a compilation of the entity's financial statements, agreeing the terms of the compilation with management of the entity is necessary in order to establish that the preconditions for a compilation are present. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A14 The understanding with management regarding the services to be performed for compilation engagements is required by paragraph .10 to be in a documented form, and, accordingly, an oral understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for compilation engagements. [Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23. Paragraph renumbered and amended, effective October 2016, by SSARS No. 23.]

.A15 Although the accountant may prepare the financial statements, in whole or in part, the financial statements are representations of management, and the fairness of their presentation in accordance with the applicable financial reporting framework is management's responsibility. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A16 Illustrative examples of engagement letters for a compilation engagement are presented in exhibit A, "Illustrative Engagement Letters." [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework (Ref: par. .12)

.A17 The requirement that the accountant obtain an understanding of the applicable financial reporting framework intended to be used in the preparation of the financial statements, and the significant accounting policies adopted by management, does not prevent the accountant from accepting a compilation engagement for an entity in an industry in which the accountant has no

previous experience. The accountant may obtain such understanding, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals who are knowledgeable about the framework or the industry. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

Compilation Procedures (Ref: par. .14–.16, .26, and .32)

.A18 The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the entity. However, the accountant may have performed such inquiries or procedures and the results of those inquiries or procedures, knowledge gained from prior engagements, or the financial statements themselves may cause the accountant to become aware that information provided by management is incorrect, incomplete, or otherwise unsatisfactory. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A19 The financial statements may adequately refer to or describe the applicable financial reporting framework via

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

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A20 Financial statements may be misleading, for example, if the applicable financial reporting framework includes the premise that the financial statements are prepared on the going concern basis, and undisclosed uncertainties exist regarding the entity's ability to continue as a going concern. If the accountant becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the accountant may suggest additional disclosures concerning the entity's ability to continue as a going concern in order to avoid the financial statements being misleading. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A21 Disclosure of items, such as an uncertainty, is not required in financial statements in which substantially all the disclosures required by the applicable financial reporting framework are omitted. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A22 In circumstances addressed by the requirements of this section in which withdrawal from the engagement is necessary, the responsibility to inform management of the reasons for withdrawing provides an opportunity to explain the accountant's ethical obligations. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A23 When making a determination about whether and how to withdraw from an engagement, the accountant may wish to consult with legal counsel. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

The Accountant's Compilation Report (Ref: par. .17)

.A24 The accountant's written report may become unattached from the financial statements. To minimize the possibility that a user of the financial statements may infer an unintended level of reliance on the financial statements, the accountant may request that management include a reference on each page of the financial statements to the accountant's written report. An example of a reference to the accountant's written report included on each page of the financial statements is "See Accountant's Report" or "See Accountant's Compilation Report." [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

[**.A25**] [Paragraph deleted by the issuance of SSARS No. 23, October 2016.]

.A26 The city and state where the accountant practices may be indicated on letterhead that contains the issuing office's city and state. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A27 Illustrative examples of accountant's compilation reports are presented in exhibit B, "Illustrative Examples of the Accountant's Compilation Reports on Financial Statements." [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

The Accountant's Compilation Report on Financial Statements Prepared in Accordance With a Special Purpose Framework (Ref: par. .08, .18, and .20)

.A28 The description of the special purpose framework may be included in the financial statement titles, in the notes to the financial statements, or otherwise on the face of the financial statements. Although terms such as *balance sheet*, *statement of financial position*, *statement of income*, *statement of operations*, and *statement of cash flows*, or similar unmodified titles, are generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP, such titles, with appropriate modification, may be used in connection with financial statements prepared in accordance with a special purpose framework. Suitable financial statement titles for financial statements prepared in accordance with a special purpose framework include, but are not limited to

- a modified cash-basis financial statement that might be titled
 - "Income Statement—Modified Cash-Basis," or
 - "Statement of Cash Receipts and Disbursements."
- financial statements prepared in accordance with the tax-basis of accounting that might be titled
 - "Balance Sheet—Tax-Basis,"
 - "Statement of Assets, Liabilities, and Equity—Tax-Basis,"

- "Statement of Operations—Tax-Basis," or
- "Statement of Revenue and Expenses—Tax-Basis."
- a financial statement prepared in accordance with a regulatory-basis of accounting that might be titled "Statement of Income—Regulatory-Basis."

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A29 Financial statements prepared in accordance with a special purpose framework need not include a summary of significant accounting policies or a description about how the special purpose framework differs from GAAP if such financial statements omit substantially all disclosures, and the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

.A30 The description of how the special purpose framework differs from GAAP ordinarily only includes the material differences between GAAP and the special purpose framework. For example, if several items are accounted for differently in accordance with the special purpose framework than they would be in accordance with GAAP, but only the differences in how depreciation is calculated are material, a brief description of the depreciation differences is all that would be necessary, and the remaining differences need not be described or quantified. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A31 Financial statements prepared when applying a special purpose framework are not considered appropriate in form unless the financial statements include informative disclosures similar to those required by GAAP if the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A32 When the financial statements are prepared in accordance with a regulatory- or contractual-basis of accounting, the accountant is required by paragraph .20*b* to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid misunderstandings when the financial statements are used for purposes other than those for which they were intended. The note to the financial statements may also describe any significant interpretations of the contract on which the financial statements are based. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

Reporting When the Accountant Is Not Independent (Ref: par. .22)

.A33 An example of a disclosure that an accountant may make to indicate the accountant's lack of independence would be

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

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A34 The accountant is not precluded from disclosing a description about the reason(s) that the accountant's independence is impaired. The following are examples of descriptions the accountant may use:

- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company.
- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company.
- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (we) performed certain accounting services (the accountant may include a specific description of those services) that impaired my (our) independence.

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A35 Illustrative examples of accountant's compilation reports when the accountant's independence has been impaired are presented in exhibit B.² [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

Reporting on Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework (Ref: par. .27)

.A36 When management elects to include disclosures about only a few matters in the notes to the financial statements, such disclosures may be labeled "Selected Information—Substantially All Disclosures Required by [the applicable financial reporting framework] Are Not Included." [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A37 An illustrative example of an accountant's compilation report on financial statements that omit substantially all disclosures required by the

² Illustration 4, "An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Accountant's Independence Is Impaired, and the Accountant Determines to Not Disclose the Reasons for the Independence Impairment" and illustration 5, "An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance With the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities When the Accountant's Independence Has Been Impaired Due to the Accountant Having a Financial Interest in the Entity, and the Accountant Decides to Disclose the Reasons for the Independence Impairment," of exhibit B, "Illustrative Examples of the Accountant's Compilation Report on Financial Statements."

applicable financial reporting framework is presented in exhibit B.³ [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

Reporting Known Departures From the Applicable Financial Reporting Framework (Ref: par. .30 and .33)

.A38 The accountant is precluded from including a statement that the financial statements are not in conformity with the applicable financial reporting framework because such a statement would be tantamount to expressing an adverse opinion on the financial statements as a whole. Such an opinion can be expressed only in the context of an audit engagement. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A39 An illustrative example of an accountant's compilation report on financial statements that contain known departures from the applicable financial reporting framework that are not disclosed in the notes to the financial statements is presented in exhibit B.⁴ [Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23. Paragraph renumbered by the issuance of SSARS No. 23, October 2016.]

Supplementary Information That Accompanies Financial Statements and the Accountant's Compilation Report Thereon (Ref: par. .34–.36)

[.A40] [Paragraph deleted to reflect conforming changes necessary due to the issuance of SSARS No. 23, October 2016.]

.A41 The following is an example of how an accountant may word a separate paragraph in the accountant's compilation report addressing supplementary information when the accountant has performed a compilation engagement on both the financial statements and the supplementary information:

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

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered and revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

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

⁴ Illustration 6, "An Accountant's Compilation Report on Comparative Financial Statements, and the Accountant is Aware of Departures From Accounting Principles Generally Accepted in the United States of America," of exhibit B.

.A42 The following is an example of how an accountant may word a separate paragraph in the accountant's compilation report addressing supplementary information when the accountant has performed a compilation engagement on the financial statements but has not performed a compilation on the supplementary information:

The accompanying [identify the supplementary information] is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The supplementary information was not subject to our compilation engagement. I (We) do not express an opinion, a conclusion, nor provide any assurance on such information.

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered and revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A43 Supplementary information may become unattached from the accountant's compilation report. To minimize the possibility that a user of the supplementary information may infer, through the accountant's association with such information, an unintended level of reliance on it, the accountant may request that management include a reference to the accountant's compilation report on each page of the supplementary information. An example of a reference to the accountant's compilation report included on each page of the supplementary information is "See Accountant's Report" or "See Accountant's Compilation Report." [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered and revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

Required Supplementary Information (Ref: par. .37–.38)

.A44 Examples of required supplementary information that may accompany financial statements and the accountant's compilation report thereon include the following:

- With respect to common interest realty associations, estimates of current or future costs of major repairs and replacements of common property that will be required in the future as required by FASB *Accounting Standards Codification* 972-235-50-3
- Management's discussion and analysis and budgetary comparison statements as required by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered and revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A45 *Prescribed guidelines* are the authoritative guidelines established by the designated accounting standards-setter for the methods of measurement and presentation of the required supplementary information. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered and revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A46 Because the required supplementary information accompanies the basic financial statements, the accountant's compilation report on the financial statements includes a discussion of the responsibility taken by the accountant

on that information. However, if the required supplementary information is omitted by the entity, the accountant does not have a responsibility to present that information. [Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered and revised, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

.A47

Exhibit A—Illustrative Engagement Letters (Ref: par. .A16)

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

Illustration 2—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America, Except the Financial Statements Omit the Statement of Cash Flows and Substantially All Disclosures Required by U.S. GAAP and in Which the Accountant's Independence Is Impaired

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

The illustrative engagement letters in this exhibit are intended as illustrations that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances, and the illustrations are drafted to refer to a compilation engagement for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

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

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial statements, including related notes, subject to the compilation engagement.
- The financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America and will include all related notes required by accounting principles generally accepted in the United States of America
- The accountant expects that his or her independence will not be impaired

To the appropriate representative of management of ABC Company:¹

You² have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related

¹ The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph .A12.

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

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

Our Responsibilities

The objective of our engagement is to

- a. prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and
- b. apply accounting and financial reporting expertise to assist you in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

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

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

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

Your Responsibilities

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

- a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements

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

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

- b. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America and the inclusion of all informative disclosures that are appropriate for accounting principles generally accepted in the United States of America
- c. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error
- d. The prevention and detection of fraud
- e. To ensure that the entity complies with the laws and regulations applicable to its activities
- f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement
- g. To provide us with
 - i. access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters
 - ii. additional information that we may request from you for the purpose of the compilation engagement
 - iii. unrestricted access to persons within the entity of whom we determine it necessary to make inquiries

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

You agree to include our accountant's compilation report in any document containing financial statements that indicates that we have performed a compilation engagement on such financial statements and, prior to inclusion of the report, to ask our permission to do so.

Other Relevant Information

Our fees for these services. . . .

[The accountant may include language, such as the following, regarding limitation of or other arrangements regarding the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

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

third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

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

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and Title]

[Date]

[Revised, February 2015, to include additional required engagement letter elements.]

Illustration 2—An Engagement Letter for a Compilation Engagement With Respect to Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America, Except the Financial Statements Omit the Statement of Cash Flows and Substantially All Disclosures Required by U.S. GAAP and in Which the Accountant’s Independence Is Impaired

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial statements subject to the compilation engagement.
- The financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America, except the statement of cash flows and substantially all disclosures required by accounting principles generally accepted in the United States of America will be omitted.
- The accountant's independence will be impaired as a result of the performance of the nonattest preparation service.

To the appropriate representative of management of ABC Company:¹

You² have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income and changes in stockholders' equity for the year then ended, and perform a compilation engagement with respect to those financial statements.³ These financial statements will not include a statement of cash

¹ The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph .A12.

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

³ The accountant may include other nonattest services to be performed as part of the engagement, such as income tax preparation and bookkeeping service.

flows and related notes to the financial statements. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

Our Responsibilities

The objective of our engagement is to

- a. prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and
- b. apply accounting and financial reporting expertise to assist you in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

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

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

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

Your Responsibilities

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

- a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements
- b. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America
- c. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error
- d. The prevention and detection of fraud
- e. To ensure that the entity complies with the laws and regulations applicable to its activities

- f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement
- g. To provide us with
 - i. access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters
 - ii. additional information that we may request from you for the purpose of the compilation engagement
 - iii. unrestricted access to persons within the entity of whom we determine it necessary to make inquiries

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them. We will disclose that we are not independent in our report. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

Our report will disclose that the Company's management has elected to omit the statement of cash flows and substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the statement of cash flows and omitted disclosures were to be included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, the financial statements will not be designed for those who are not informed about such matters.

We will also disclose that we are not independent in our report.

You agree to include our accountant's compilation report in any document containing financial statements that indicates that we have performed a compilation engagement on such financial statements and, prior to inclusion of the report, to ask our permission to do so.

Other Relevant Information

Our fees for these services. . . .

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorneys' fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

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

engagement with respect to those same financial statements, and our respective responsibilities.

Sincerely yours,

[*Signature of accountant or accountant's firm*]

Acknowledged and agreed on behalf of ABC Company by:

[*Signed*]

[*Name and Title*]

[*Date*]

[Revised, February 2015, to include additional required engagement letter elements.]

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

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial statements subject to the compilation engagement.
- The financial statements will be prepared in accordance with the tax-basis of accounting.
- The accountant expects that his or her independence will not be impaired.

To the appropriate representative of management of ABC Company:¹

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

¹ The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph .A12.

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

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

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

Our Responsibilities

The objective of our engagement is to

- a.* prepare financial statements in accordance with the tax-basis of accounting based on information provided by you and
- b.* apply accounting and financial reporting expertise to assist you in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the tax-basis of accounting.

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

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

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

Your Responsibilities

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

- a.* The selection of the tax-basis of accounting as the financial reporting framework to be applied in the preparation of the financial statements
- b.* The preparation and fair presentation of financial statements in accordance with the tax-basis of accounting
- c.* The inclusion of all informative disclosures that is appropriate for the tax-basis of accounting. This includes
 - i.* a description of the tax-basis of accounting, including a summary of significant accounting policies, and how the tax-basis of accounting differs from accounting principles generally accepted in the United States of America, the effects of which need not be quantified and
 - ii.* informative disclosures similar to those required by accounting principles generally accepted in the United States of America.⁵

⁵ The responsibility described in *c* need not be included if the financial statements omit substantially all disclosures required by the financial reporting framework.

- d. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error
- e. The prevention and detection of fraud
- f. To ensure that the entity complies with the laws and regulations applicable to its activities
- g. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the compilation engagement
- h. To provide us with
 - i. access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters
 - ii. additional information that we may request from you for the purpose of the compilation engagement
 - iii. unrestricted access to persons within the entity of whom we determine it necessary to make inquiries

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

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

You agree to include our accountant's compilation report in any document containing financial statements that indicates that we have performed a compilation engagement on such financial statements and, prior to inclusion of the report, to ask our permission to do so.

Other Relevant Information

Our fees for these services. . . .

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorneys' fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial statements described herein except for our own intentional wrongdoing.]

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

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and Title]

[Date]

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23. Revised, February 2015, to include additional required engagement letter elements.]

.A48

Exhibit B—Illustrative Examples of the Accountant's Compilation Report on Financial Statements (Ref: par. .A27, .A35, .A37, and .A39)

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

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

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

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

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

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

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

Management is responsible for the accompanying financial statements of XYZ Company, 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 nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of

the information provided by management. I (we) do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

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

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the statements of financial position as of December 31, 20X2 and 20X1 and the related statements of operations and cash flows for the years then ended, and the related notes to the financial statements in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, and for determining that the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities is an acceptable financial reporting framework. 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 nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. I (we) do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

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

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

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

Management is responsible for the accompanying financial statements of XYZ Partnership, which comprise the statements of assets, liabilities, and partners' capital—tax-basis as of December 31, 20X2 and 20X1 and the related statements of revenue and expenses—tax-basis, and changes in partners' capital—tax-basis for the years then ended in accordance with the tax-basis of accounting, and for determining that the tax-basis of accounting is an acceptable financial reporting framework. 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 nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. I (we) do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

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

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

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

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

Management is responsible for the accompanying financial statements of XYZ Company, 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 nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. I (we) do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

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

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

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

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the statements of financial position as of December 31, 20X2 and 20X1, and the related statements of operations and cash flows for the years then ended, and the related notes to the financial statements in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, and for determining that the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities is an acceptable financial reporting framework. 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 nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. I (we) do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

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

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

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

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

Management is responsible for the accompanying financial statements of XYZ Company, 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 nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. I (we) do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

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

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

[Paragraph renumbered by the issuance of SSARS No. 23, October 2016. Paragraph subsequently renumbered, October 2016, to reflect conforming changes necessary due to the issuance of SSARS No. 23.]

