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# EXPOSURE DRAFT

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## PROPOSED STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

### *REVIEW OF FINANCIAL STATEMENTS*

### *REVIEW OF FINANCIAL STATEMENTS—SPECIAL CONSIDERATIONS*

*(To supersede paragraphs 1.07–.08 and 3.01–.73 of Statement on Standards for Accounting and Review Services No. 19, Compilation and Review Engagements [AICPA, Professional Standards, AR sec. 60 and 90].)*

**November 15, 2012**

**Comments are requested by April 26, 2013**

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

Comments should be addressed to Mike Glynn at [mglynn@aicpa.org](mailto:mglynn@aicpa.org).



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## EXPLANATORY MEMORANDUM

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### Introduction

This memorandum provides background to the proposed Statements on Standards for Accounting and Review Services (SSARSs) *Review of Financial Statements* and *Review of Financial Statements—Special Considerations*. These proposed SSARSs would supersede paragraphs 1.07–.08 and 3.01–.73 of SSARS No. 19, *Compilation and Review Engagements* (AICPA, *Professional Standards*, AR sec. 60 and 90).

The accompanying proposed SSARSs represent the redrafting of the aforementioned paragraphs of SSARS No. 19 to apply the Accounting and Review Services Committee’s (ARSC’s) clarity drafting conventions and also include additional changes from existing standards, as discussed in the following sections.

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

- AR section 90, *Review of Financial Statements* (Revised)
- AR section 95, *Review of Financial Statements—Special Considerations*

In an attempt to make the standards easier to use, understand, and implement, ARSC has determined to separate the review standards into two separate AR sections. AR section 90 will address those areas that are applicable to a basic review engagement. Those areas that are less frequently encountered will be addressed in AR section 95.

Additionally, ARSC concluded that certain material addressed in extant SSARSs should not be included in the clarified SSARSs. Such material includes communications between predecessor and successor accountants regarding acceptance of a review engagement (review requirements and guidance in AR section 400, *Communications Between Predecessor and Successor Accountants* [AICPA, *Professional Standards*]).

ARSC will consider inclusion of appropriate guidance in subsequent editions of the AICPA Guide *Compilation and Review Engagements*.

### Background

#### Clarity

In October 2011, the Auditing Standards Board (ASB) reached a major milestone in its project to redraft all of the auditing sections in *Codification of Statements on Auditing Standards* (contained in AICPA *Professional Standards*), with the release of Statement on Auditing Standards (SAS) Nos. 122–124. The clarified auditing standards are designed to make the standards easier to read, understand, and apply.

ARSC has concluded that by undertaking a similar clarity project, ARSC would serve the public interest by having all of the professional literature for audits, reviews, and compilations drafted using the same conventions. In addition, the resulting clarified compilation and review standards would be easier to read, understand, and apply.

In May 2010, ARSC approved a project to revise all existing compilation and review standards in the *Codification of Statements on Standards for Accounting and Review Services* (AR sections

of AICPA *Professional Standards*) substantially using the drafting conventions adopted by the ASB in clarifying the auditing literature.

ARSC has determined, however, that there would be certain differences between its clarity drafting conventions and those adopted by the ASB. Specifically, ARSC has determined to not include specific application guidance with respect to governmental entities and smaller, less complex entities. Accordingly, the proposed SSARSs have been drafted in accordance with ARSC's clarity drafting conventions, which include the following:

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

### **Convergence**

Whereas the ASB used, where applicable, the corresponding International Standards on Auditing (ISA) as a base when drafting each clarified auditing standard, ARSC has used AU-C section 930, *Interim Financial Information* (AICPA, *Professional Standards*), as a base for the clarified review literature. AU-C section 930 was clarified using the corresponding ISA as a base. ARSC determined that it was more appropriate to converge with the corresponding limited assurance engagement guidance in the American auditing literature than with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*.

### **Effective Date**

The proposed SSARSs *Review of Financial Statements* and *Review of Financial Statements—Special Considerations* would be effective for reviews of financial statements for periods ending on or after December 15, 2014. Early implementation is not permitted.

### **Changes From Existing Standards**

The following represents what ARSC believes would be the most significant changes to extant SSARSs if the proposed SSARSs *Review of Financial Statements* and *Review of Financial Statements—Special Considerations* were issued as final SSARSs.

### **Scope**

Extant AR section 90 provides guidance on reviews of financial statements.<sup>1</sup> Paragraph 1 of the proposed SSARS *Review of Financial Statements* states that the proposed SSARS may also be applied, adapted as necessary in the circumstances, to other historical financial information on which the accountant has been engaged to issue a review report. Therefore, specified elements,

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<sup>1</sup> Paragraph .01 of AR section 90, *Review of Financial Statements* (AICPA, *Professional Standards*).

accounts, or items of a financial statement, supplementary information, required supplementary information, financial information included in a tax return, and other historical financial information may be reviewed in accordance with the SSARSs.

### ***Requirement to Exercise Professional Judgment***

Although it has been understood that an accountant should exercise professional judgment in the performance of a review engagement, paragraph 12 of the proposed SSARS *Review of Financial Statements* explicitly states the requirement. It is not anticipated that this requirement will result in a change in practice.

### ***Requirement to Obtain a Signed Engagement Letter or Other Suitable Form of Written Communication***

Although extant AR section 90 requires that the accountant document the understanding with management regarding the services to be performed for review engagements through a written communication with management, extant AR section 90 does not require that the written understanding be signed by either the accountant or management.

Paragraph 10 of the proposed SSARS *Review of Financial Statements* requires that the engagement letter or other suitable form of written communication be signed by (a) the accountant or the accountant's firm and (b) management or, if applicable, those charged with governance.

### ***Reporting on the Financial Statements***

The proposed SSARS *Review of Financial Statements* requires the use of headings throughout the accountant's review report to clearly distinguish each section of the report.

Additionally, the proposed SSARS *Review of Financial Statements* requires that the accountant's review report name the city and state of the issuing office. The application material makes clear that the city and state where the accountant practices may be indicated on letterhead that contains the issuing office's city and state. It is not anticipated that this requirement will result in a change in practice.

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

The proposed SSARS *Review of Financial Statements* introduces the term *special purpose framework* to SSARSs. The term *special purpose framework* includes the cash-, tax-, regulatory-, and other bases of accounting that have traditionally been referred to as *other comprehensive bases of accounting* as well as the contractual basis of accounting. The proposed SSARS includes several new requirements with respect to reporting on financial statements prepared in accordance with a special purpose framework, including the following:

- A requirement that the accountant consider whether the financial statements are suitably titled, and, as applicable, include a summary of significant accounting policies and adequately describe how the special purpose framework differs from generally accepted accounting principles (GAAP)

- A requirement that the accountant consider when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, whether the financial statements include informative disclosures related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation
- In the case of financial statements prepared in accordance with a contractual basis of accounting, a requirement that the accountant consider whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based
- A requirement that the accountant’s review report on financial statements prepared in accordance with a special purpose framework,
  - when management has a choice of financial reporting frameworks in the preparation of such financial statements, make reference to management’s responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances
  - when the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information
- A requirement that the accountant’s review report on financial statements prepared in accordance with a special purpose framework include an emphasis-of-matter paragraph under an appropriate heading, that
  - indicates that the financial statements are prepared in accordance with the applicable financial reporting framework;
  - refers to the note to the financial statements that describes the framework; and
  - states that the special purpose framework is a basis of accounting other than GAAP
- A requirement that the accountant’s review report on special purpose financial statements include an other-matter paragraph under an appropriate heading that restricts the use of the accountant’s review report solely to those within the entity, the parties to the contract or agreement, or the regulatory agencies to whose jurisdiction the entity is subject when the special purpose financial statements are prepared in accordance with either
  - a contractual basis of accounting or
  - a regulatory basis of accounting, unless the special purpose financial statements together with the accountant’s review report are intended for general use

***Emphasis-of-Matter and Other-Matter Paragraphs in the Accountant’s Review Report***

Paragraph .33 of extant AR section 90 states that emphasis paragraphs are never required. However, the proposed SSARs *Review of Financial Statements* and *Review of Financial Statements—Special Considerations* require the accountant to include an emphasis-of-matter or other-matter paragraph in the accountant’s review report relating to the following matters:

- Financial statements prepared in accordance with a special purpose framework
- Reporting when management revises financial statements for a subsequently discovered fact that became known to the accountant after the report release date and the accountant’s review report on the revised financial statements differs from the accountant’s review report on the original financial statements

In addition, the proposed SSARS *Review of Financial Statements—Special Considerations* requires the accountant to include an emphasis-of-matter paragraph in the accountant’s review report when the accountant considers it necessary to draw users’ attention to a matter appropriately presented or disclosed in the financial statements that, in the accountant’s professional judgment, is of such importance that it is fundamental to the user’s understanding of the financial statements, provided that the accountant does not believe that the financial statements may be materially misstated.

The proposed SSARS *Review of Financial Statements—Special Considerations* requires the accountant to include an other-matter paragraph in the accountant’s review report when the accountant considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the accountant’s professional judgment, is relevant to the users’ understanding of the review, the accountant’s responsibilities, or the accountant’s review report.

If the accountant expects to include an emphasis-of-matter or other-matter paragraph in the accountant’s review report, the proposed SSARS *Review of Financial Statements—Special Considerations* requires the accountant to communicate with management regarding this expectation and the proposed wording of this paragraph.

### ***Required Supplementary Information***

The proposed SSARS *Review of Financial Statements—Special Considerations*

- defines *required supplementary information* as information that a designated accounting standard setter requires to accompany an entity’s basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standard setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of that information have been established.
- defines *designated accounting standard setter* as a body designated by the Council of the AICPA to promulgate GAAP pursuant to Rule 202, *Compliance With Standards* (AICPA, *Professional Standards*, ET sec. 202 par. .01), and Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .01).
- establishes a requirement that the accountant include an other-matter paragraph in the accountant’s review report on the financial statements to refer to the required supplementary information and establishes reporting requirements when
  - the required supplementary information is included and the accountant compiled the required supplementary information.

- the required supplementary information is included and the accountant reviewed the required supplementary information.
- the required supplementary information is included and the accountant did not compile, review, or audit the required supplementary information.
- the required supplementary information is omitted.
- some required supplementary information is missing and some is presented in accordance with the prescribed guidelines.
- the accountant has identified departures from the prescribed guidelines.
- the accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

## **Guide for Respondents**

ARSC is seeking comments specifically on changes resulting from applying the clarity drafting conventions and their effect on the content of the proposed SSARSs.

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

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after April 26, 2013, for one year. Responses should be sent to Mike Glynn at [mglynn@aicpa.org](mailto:mglynn@aicpa.org) and should be received by April 26, 2013.

## **Supplements to the Exposure Draft**

To assist respondents in commenting on the proposed SSARSs, the Audit and Attest Standards staff has prepared the following supplementary material:

- a. A comparison of AU-C section 930 and the proposed SSARS *Review of Financial Statements*
- b. A comparison of ISRE 2400 (Revised) and the proposed SSARS *Review of Financial Statements*

This staff-prepared supplementary material is for information purposes only and is not a part of the exposure draft. However, it may be useful for respondents in formulating comments and is available on the AICPA website at [www.aicpa.org/Research/ExposureDrafts/CompilationReview/Pages/EDofSSARS.aspx](http://www.aicpa.org/Research/ExposureDrafts/CompilationReview/Pages/EDofSSARS.aspx).

## **Comment Period**

The comment period for this exposure draft ends on April 26, 2013.

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(2012–2013)

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**PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND  
REVIEW SERVICES**

***REVIEW OF FINANCIAL STATEMENTS***

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

## **Introduction**

### **Scope and Applicability of This Proposed Statement on Standards for Accounting and Review Services**

1. This proposed Statement on Standards for Accounting and Review Services (SSARS) addresses the accountant's responsibilities when engaged to review financial statements. This proposed SSARS may also be applied, as necessary in the circumstances, to other historical financial information on which an accountant has been requested to issue a review report. (Ref: par. A1-A2)
2. The accountant is precluded from performing a review engagement if the accountant's independence is impaired for any reason. (Ref: par. A3-A4)
3. This proposed SSARS does not apply when the accountant is engaged to review interim financial information when
  - a. the entity's latest annual financial statements have been audited by the accountant or a predecessor;
  - b. the accountant either
    - i. has been engaged to audit the entity's current year financial statements or
    - ii. audited the entity's latest annual financial statements and, in situations in which it is expected that the current year financial statements will be audited, the engagement of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review; and (Ref: par. A5)
  - c. the entity prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the annual financial statements.

Accountants engaged to perform reviews of interim financial information when the conditions in (a)–(c) are met should perform such reviews in accordance with AU-C section 930, *Interim Financial Information* (AICPA, *Professional Standards*).

### **Effective Date**

4. This proposed SSARS is effective for reviews of financial statements for periods ending on or after December 15, 2014.

### **Objectives**

5. The objective of the accountant when performing a review of financial statements is to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with

the applicable financial reporting framework, primarily through the performance of inquiry and analytical procedures. (Ref: par. A6-A11)

## Definitions

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

**Analytical procedures.** Evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such investigation, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

**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.

**Comparative financial statements.** A complete set of financial statements for one or more prior periods included for comparison with the financial statements of the current period.

**Emphasis-of-matter paragraph.** A paragraph included in the accountant's review report that is required by SSARs, or is included at the accountant's discretion, and that refers to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to the users' understanding of the financial statements. See also **other-matter paragraph**.

**Engagement risk.** The risk that the accountant expresses an inappropriate conclusion when the financial statements are materially misstated.

**Error.** Mistakes in the financial statements, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including inadequate disclosures.

**Experienced accountant.** An individual (whether internal or external to the firm) who possesses the competencies and skills that would have enabled the accountant to perform the review, and a reasonable understanding of

- a. review processes;
- b. SSARs and the applicable legal and regulatory requirements;
- c. the business environment in which the entity operates; and
- d. review and financial reporting issues relevant to the entity's industry.

**Financial reporting framework.** A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements, for example, U.S. generally accepted accounting principles,

International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework.

**Financial statements.** A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term *financial statements* ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.

**Fraud.** An intentional act that results in a misstatement in financial statements.

**Generally accepted accounting principles (GAAP).** Reference to GAAP in SSARs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to Rule 202, *Compliance With Standards* (AICPA, *Professional Standards*, ET sec. 202 par. .01), and Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .01), 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.

**Noncompliance.** Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to prevailing laws or regulations. Such acts include transactions entered into, by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. *Noncompliance* does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management, or employees of the entity.

**Nonissuer.** Any entity not subject to the Sarbanes-Oxley Act of 2002 or the rules of the U.S. Securities and Exchange Commission.

**Other-matter paragraph.** A paragraph included in the accountant's review report that is required by SSARs, or is included at the accountant's discretion, and that refers to a matter other than those presented or disclosed in the financial statements that, in the accountant's judgment, is relevant to users' understanding of the review, the accountant's responsibilities, or the accountant's review report. See also **emphasis-of-matter paragraph**.

**Professional judgment.** The application of relevant training, knowledge, and experience, within the context provided by professional standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

**Review documentation.** The record of review procedures performed, relevant review evidence obtained, and conclusions the accountant reached (terms such as *working papers* or *workpapers* are also sometimes used).

**Review evidence.** Information used by the accountant to provide a reasonable basis for the obtaining of limited assurance.

**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.
- c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).
- d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.
- e. **Other basis.** A basis of accounting that utilizes a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statement.

All of the preceding bases of accounting, with the exception of the contractual basis, are commonly referred to as *other comprehensive bases of accounting*.

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

**Updated report.** A report issued by a continuing accountant that takes into consideration information that the accountant becomes aware of during the accountant's current engagement and that re-expresses the accountant's previous conclusions or, depending on the circumstances, expresses different conclusions on the financial statements of a prior period reviewed by the accountant as of the date of the accountant's current report.

**Written representation.** A written statement by management provided to the accountant to confirm certain matters or to support other review evidence. Written representations in this context do not include financial statements or supporting books and records.

## Requirements

### Acceptance

- 7.** As a condition for accepting an engagement to review an entity's financial statements, the accountant should
- a.* determine whether preliminary knowledge of the engagement circumstances indicate that ethical requirements regarding professional competence will be satisfied.
  - b.* determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable.
  - c.* obtain the agreement of management that it acknowledges and understands its responsibility
    - i.* for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
    - ii.* for the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework.
    - iii.* to provide the accountant with
      - (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
      - (2) additional information that the accountant may request from management for the purpose of the review; and
      - (3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.
    - iv.* to include the accountant's review report in any document containing financial statements that indicates that such financial statements have been reviewed by the entity's accountant. (Ref: par. A12)
- 8.** If the accountant is not satisfied about any of the matters set out in paragraph 7 as preconditions for accepting a review 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***

- 9.** The accountant should agree upon the terms of the engagement with management. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement and should include the following: (Ref: par. A13-A17)
- a.* The objectives of the engagement
  - b.* The responsibilities of management set forth in paragraph 7(c)
  - c.* The responsibilities of the accountant
  - d.* The limitations of a review engagement
  - e.* Identification of the applicable financial reporting framework for the preparation of the financial statements

- 10.** The engagement letter or other suitable form of written communication should be signed by
- a.* the accountant or the accountant's firm and
  - b.* management or those charged with governance, as appropriate. (Ref: par. A14)

### **Professional Judgment**

- 11.** The accountant should perform the engagement recognizing that circumstances may exist that cause the financial statements to be materially misstated.
- 12.** The accountant should exercise professional judgment in conducting a review engagement. (Ref: par. A18-A21)

### **Understanding of the Industry**

- 13.** To perform the review engagement, the accountant should possess or obtain an understanding of the industry in which the entity operates, including the accounting principles and practices generally used in the industry, sufficient to enable the accountant to review financial statements that are appropriate for an entity operating in that industry. (Ref: par. A22)

### **Knowledge of the Entity**

- 14.** The accountant should obtain knowledge about the entity, including an understanding of
- the entity's business and (Ref: par. A23)
  - the accounting principles and practices used by the entity (Ref: par. A24)

sufficient to identify areas in the financial statements where there is a greater likelihood that material misstatements may arise and to be able to design procedures to address those areas.

- 15.** In obtaining the understanding of the entity's accounting policies and practices, the accountant should be alert to accounting policies and procedures that, based on the accountant's knowledge of the industry, are unusual.

### **Designing and Performing Review Procedures**

- 16.** The accountant should design and perform analytical procedures and make inquiries and perform other procedures, as appropriate, to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework based on the accountant's (Ref: par. A25)
- a.* understanding of the industry,
  - b.* knowledge of the client, and
  - c.* awareness of the risk that the accountant may unknowingly fail to modify the accountant's review report on financial statements that are materially misstated. (Ref: par. A26)

**17.** The accountant should focus the analytical procedures and inquiries in those areas in which the accountant believes there are increased risks of misstatements.

### **Analytical Procedures**

**18.** The accountant should apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement. Such analytical procedures should include the following: (Ref: par. A27–A28)

- a.* Comparing the financial statements with comparable information for the prior period, giving consideration to knowledge about changes in the entity’s business and specific transactions
- b.* Considering plausible relationships among both financial and, when relevant, nonfinancial information (Ref: par. A29)
- c.* Comparing recorded amounts or ratios developed from recorded amounts to expectations developed by the accountant through identifying and using relationships that are reasonably expected to exist, based on the accountant’s understanding of the entity and the industry in which the entity operates

**19.** When designing and performing analytical procedures, the accountant should (Ref: par. A30-A32)

- a.* determine the suitability of particular analytical procedures;
- b.* consider the reliability of data from which the accountant’s expectation of recorded amounts or ratios is developed, taking into account the source, comparability, and nature and relevance of information available and controls over preparation;
- c.* develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to provide the accountant with limited assurance that a misstatement will be identified that, either individually or when aggregated with other misstatements, may cause the financial statements to be misstated; and
- d.* determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 20 and compare the recorded amounts, or ratios developed from recorded amounts, with the expectations.

### **Investigating Results of Analytical Procedures**

**20.** If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the accountant should investigate such differences by

- a.* inquiring of management and
- b.* performing other review procedures if considered necessary in the circumstances. (Ref: par. A33)

### **Inquiries of Members of Management Who Have Responsibility for Financial and Accounting Matters**

**21.** The accountant should inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about (Ref: par. A34)

- a.* whether the financial statements have been prepared and fairly presented in accordance with the applicable financial reporting framework consistently applied.
- b.* unusual or complex situations that may have an effect on the financial statements. (Ref: par. A35)
- c.* significant transactions occurring or recognized during the period, particularly those in the last several days of the period.
- d.* the status of uncorrected misstatements identified during the previous review (that is, whether adjustments had been recorded subsequent to the periods covered by the prior review and, if so, the amounts recorded and period in which such adjustments were recorded).
- e.* matters about which questions have arisen in the course of applying the review procedures.
- f.* events subsequent to the date of the financial statements that could have a material effect on the fair presentation of such financial statements.
- g.* its knowledge of any fraud or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, or (3) others when the fraud could have a material effect on the financial statements. (Ref: par. A36)
- h.* whether management is aware of allegations of fraud or suspected fraud affecting the entity communicated by employees, former employees, regulators, or others.
- i.* significant journal entries and other adjustments.
- j.* communications from regulatory agencies, if applicable.
- k.* related parties and significant new related party transactions.
- l.* any litigation, claims, and assessments that existed at the date of the balance sheet being reported on and during the period from the balance sheet date to the date of management's response to the accountant's inquiry.
- m.* actions taken at meetings of stockholders, the board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements. (Ref: par. A37)
- n.* any other matters that the accountant may consider necessary.

**22.** The accountant should consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the entity's business. However, the accountant is not required to corroborate management's responses with other evidence.

### **Reading the Financial Statements**

**23.** The accountant should read the financial statements and consider whether any information has come to the accountant's attention to indicate that such financial statements do not conform to the applicable financial reporting framework.

### **Using the Work of Other Accountants**

**24.** If other accountants have issued a report on the financial statements of significant components, such as subsidiaries and investees, the accountant should obtain and read reports from such other accountants.

### **Reconciling the Financial Statements to the Underlying Accounting Records**

**25.** The accountant should obtain evidence that the financial statements agree or reconcile with the accounting records. In addition, the accountant should inquire of management about the reliability of the records to which the financial statements were compared or reconciled. (Ref: par. A38)

### **Evaluating Evidence Obtained From the Procedures Performed**

**26.** The accountant should accumulate misstatements, including inadequate disclosure, identified by the accountant in performing the review procedures or brought to the accountant's attention during the performance of the review.

**27.** The accountant should evaluate, individually and in the aggregate, misstatements, including inadequate disclosure, accumulated in accordance with paragraph 26 to determine whether material modification should be made to the financial statements for them to be in accordance with the applicable financial reporting framework. (Ref: par. A40)

**28.** If, during the performance of review procedures, the accountant becomes aware that information coming to the accountant's attention is incorrect, incomplete, or otherwise unsatisfactory the accountant should

- a.* request that management consider the effect of those matters on the financial statements and communicate the results of its consideration to the accountant and
- b.* consider the results communicated to the accountant by management and whether such results indicate that the financial statements may be materially misstated.

**29.** If the accountant determines that the evidence obtained from the performance of analytical procedures and inquiries does not provide limited assurance as a basis for reporting whether there are any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework, the accountant should withdraw from the engagement.

### **Written Representations**

#### ***Written Representations as Review Evidence***

**30.** Written representations are necessary information that the accountant requires in connection with a review of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are review evidence. (Ref: par. A41)

### ***Management From Whom Written Representations Are Requested***

**31.** The accountant should request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Ref: par. A42-A44)

### ***Specific Written Representations***

**32.** For all financial statements presented and for all periods covered by the review, the accountant should request management to provide written representations, as of the date of the accountant's review report (Ref: par. A45-A51)

- a. that management has fulfilled its responsibility for the preparation and fair presentation of the financial statements, in accordance with the applicable financial reporting framework, as set out in the terms of the engagement.
- b. that management acknowledges its responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements, including its responsibility to prevent and detect fraud.
- c. that management has provided the accountant with all relevant information and access, as agreed upon in the terms of the engagement.
- d. that all transactions have been recorded and are reflected in the financial statements.
- e. that management has disclosed to the accountant its knowledge of fraud or suspected fraud affecting the entity involving
  - i. management,
  - ii. employees who have significant roles in internal control, or
  - iii. others when the fraud could have a material effect on the financial statements.
- f. that management has disclosed to the accountant its knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- g. that management has disclosed to the accountant all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- h. about whether management believes that the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the financial statements as a whole. A summary of such items should be included in, or attached to, the written representation.
- i. that management has disclosed to the accountant all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements, and it has appropriately accounted for and disclosed such litigation and claims in accordance with the applicable financial reporting framework.

- j. about whether management believes that significant assumptions used by it in making accounting estimates are reasonable.
- k. that management has disclosed to the accountant the identity of the entity's related parties and all of the related party relationships and transactions of which it is aware and it has appropriately accounted for and disclosed such relationships and transactions.
- l. that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

**33.** If, in addition to the representations required by paragraph 32, the accountant determines that it is necessary to obtain one or more written representations to support other review evidence relevant to the financial statements, the accountant should request such other written representations.

#### ***Form of Written Representations***

**34.** The written representations should be in the form of a representation letter addressed to the accountant. (Ref: par. A52-A53)

#### ***Concerns About the Reliability of Written Representations and Requested Written Representations Not Provided***

**35.** If the accountant has concerns about the reliability of the representations or if management does not provide the requested written representations, the accountant should take appropriate action. (Ref: par. A54)

#### **Reporting on the Financial Statements**

**36.** The accountant's review report should be in writing. (Ref: par. A55-A56)

#### ***Accountant's Review Report***

- 37.** The written review report should include (Ref: par. A70)
- a. a title that includes the word *independent* to clearly indicate that it is the report of an independent accountant. (Ref: par. A58)
  - b. an addressee as appropriate for the circumstances of the engagement. (Ref: par. A59)
  - c. an introductory paragraph that (Ref: par. A60-A62)
    - i. identifies the entity whose financial statements have been reviewed,
    - ii. states that the financial statements identified in the report were reviewed,
    - iii. identifies the financial statements,
    - iv. specifies the date or period covered by each financial statement,
    - v. includes a statement that a review includes primarily applying analytical procedures to management's (owner's) financial data and making inquiries of company management (owners), and

- vi. includes a statement that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole, and that, accordingly, the accountant does not express such an opinion.
- d. a section with the heading “Management’s Responsibility for the Financial Statements” that includes an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework. (Ref: par. A63)
- e. a section with the heading “Accountant’s Responsibility” that includes the following statements:
  - i. The accountant’s responsibility is to conduct the review engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA. The accountant’s review report should also explain that those standards require that the accountant perform the procedures to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework. (Ref: par. A64-A66)
  - ii. The accountant believes that the review evidence the accountant has obtained is sufficient and appropriate to provide a basis for the accountant’s conclusion.
- f. a concluding section with an appropriate heading that includes a statement about whether the accountant is aware of any material modifications that should be made to the accompanying financial statements for them to be in accordance with the applicable financial reporting framework and that identifies the country of origin of those accounting principles, if applicable. (Ref: par. A40)
- g. the manual or printed signature of the accountant’s firm.
- h. the city and state where the accountant practices. (Ref: par. A67)
- i. the date of the review report, which should be dated no earlier than the date on which the accountant completed procedures sufficient to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework including evidence that
  - i. all the statements that the financial statements comprise, including the related notes, have been prepared and
  - ii. management has asserted that they have taken responsibility for those financial statements. (Ref: par. A68-A69)

***Accountant’s Review Report on Financial Statements Prepared in Accordance With a Special Purpose Framework***

**38.** In a review of financial statements prepared in accordance with a special purpose framework, the accountant should consider whether the financial statements

- a. are suitably titled, (Ref: par. A71)
- b. include a summary of significant accounting policies, and
- c. adequately describe how the special purpose framework differs from GAAP. The effects of these differences need not be quantified. (Ref: par. A72)

**39.** In a review of financial statements prepared in accordance with a special purpose framework, when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, the accountant should consider whether the financial statements include informative disclosures similar to those required by GAAP. (Ref: par. A73)

**40.** In the case of financial statements prepared in accordance with a contractual basis of accounting, the accountant should consider whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

**41.** The accountant's review report on financial statements prepared in accordance with a special purpose framework should,

- when management has a choice of financial reporting frameworks in the preparation of such financial statements, make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
- when the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. (Ref: par. A74)

**42.** The accountant's review report on financial statements prepared in accordance with a special purpose framework should include an emphasis-of-matter paragraph, under an appropriate heading, that (Ref: par. A75)

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

**43.** The accountant's review report on special purpose financial statements should include, in accordance with paragraph 7 of the proposed SSARS *Review of Financial Statements—Special Considerations*, an *other-matter* paragraph, under an appropriate heading, that, in accordance with paragraphs 14–15 of the proposed SSARS *Review of Financial Statements—Special Considerations*, restricts the use of the accountant's review report solely to those within the entity, the parties to the contract or agreement, or the regulatory agencies to whose jurisdiction the entity is subject when the special purpose financial statements are prepared in accordance with either

- a contractual basis of accounting or

- a regulatory basis of accounting, unless the special purpose financial statements together with the accountant's review report are intended for general use.

## **Comparative Financial Statements**

**44.** Comparative financial statements may be required by the applicable financial reporting framework, or management may elect to provide such information. When comparative financial statements are presented, the accountant's report should refer to each period for which financial statements are presented. (Ref: par. A76)

### ***Updating the Report***

**45.** When reporting on all periods presented, a continuing accountant should update the report on one or more prior periods presented on a comparative basis with those of the current period. The accountant's report on comparative financial statements should not be dated earlier than the date that the accountant completed procedures sufficient to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework with respect to the current period. (Ref: par. A77-A78)

**46.** When issuing an updated report, the continuing accountant should consider information that the accountant has become aware of during the review of the current period financial statements.

## **Communicating to Management and Others Regarding Fraud or Noncompliance With Laws and Regulations**

**47.** If the accountant becomes aware that fraud (including misappropriation of assets) may have occurred, the accountant should communicate the matter as soon as practicable to the appropriate level of management (at a level above those involved with the suspected fraud, if possible). If the accountant becomes aware of matters involving identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements, the accountant should communicate the matters to those charged with governance, other than when matters are clearly inconsequential. If the fraud or noncompliance with laws or regulations involves senior management or results in a material misstatement of the financial statements, the accountant should communicate the matter directly to those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that (Ref: par. A79-A81)

- the financial statements are not materially misstated due to fraud or
- the entity is in compliance with laws and regulations, and in the accountant's professional judgment, the effect of the suspected noncompliance may be material to the financial statements,

the accountant should consider the need to obtain legal advice and take appropriate action. (Ref: par. A81-A82)

## **Review Documentation**

## ***Documentation of the Review Procedures Performed and the Review Evidence Obtained***

**48.** The accountant should prepare review documentation that is sufficient to enable an experienced accountant, having no previous connection to the review, to understand (Ref: par. A83-A86)

- a. the nature, timing, and extent of the review procedures performed to comply with SSARSs;
- b. the results of the review procedures performed and the review evidence obtained; and
- c. significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: par. A87)

**49.** In addition to the requirements in paragraph 48, the review documentation should include the following:

- The engagement letter or other suitable form of written documentation with management, as described in paragraph 12 (Ref: par. A15-A17)
- Communications required by SSARSs
- The representation letter
- A copy of the reviewed financial statements and the accountant's review report

## **Application and Other Explanatory Material**

### **Scope and Applicability of This Proposed SSARS (Ref: par. 1-3)**

**A1.** Examples of other historical financial information that an accountant may be engaged to review include but are not limited to 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
- Financial information contained in a tax return

**A2.** The accountant may review a single financial statement, such as a balance sheet, and not other related financial statements, such as the statements of income, retained earnings, and cash flows, if the scope of the accountant's inquiry and analytical procedures have not been restricted.

**A3.** The AICPA Code of Professional Conduct provides guidance with respect to independence.

**A4.** The preparation of financial statements, in whole or in part, is a nonattest service subject to the provisions of Interpretation No. 101-3, "Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05), of the AICPA Code of Professional Conduct.

**A5.** The ability to apply the provisions of AU-C section 930 even when the accountant does not expect to be engaged to audit the current year financial statements provides for appropriate transitions between the predecessor auditor and the auditor of the current year financial statements.

### **Objectives (Ref: par. 5)**

**A6.** A review differs significantly from an audit of financial statements in which the auditor obtains a high level of assurance (expressed in the auditor's report as obtaining reasonable assurance) that the financial statements are free of material misstatement. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, in a review, the accountant does not obtain assurance that he or she will become aware of all significant matters that would be disclosed in an audit. Therefore, a review is designed to obtain only limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework.

### ***Materiality***

**A7.** The accountant's consideration of materiality is made in the context of the applicable financial reporting framework. Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that

- misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement or a combination of both; and
- judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

**A8.** If present in the applicable financial reporting framework, a discussion of the concept of materiality provides a frame of reference to the accountant in determining, as required by paragraph 38, whether there are any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to in paragraph A7 provide the accountant with such a frame of reference.

**A9.** The accountant’s determination of materiality is a matter of professional judgment and is affected by the accountant’s perception of the needs of the intended users of the financial statements. In this context, it is reasonable for the accountant to assume that users

- a. have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
- b. understand that financial statements are prepared, presented, and reviewed to levels of materiality;
- c. recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
- d. make reasonable economic decisions on the basis of the information in the financial statements.

Further, unless the review engagement is undertaken for financial statements that are intended to meet the particular needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

**A10.** The accountant’s judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by the accountant as a basis for expressing a conclusion on the financial statements.

### ***Revising Materiality***

**A11.** The accountant’s determination of materiality for the financial statements as a whole may need to be revised during the engagement as a result of

- a change in the circumstances that occurred during the review (for example, a decision to dispose of a major part of the entity’s business).
- new information, or a change in the accountant’s understanding of the entity and its environment as a result of performing review procedures (for example, if during the review it appears though actual financial results are likely to be substantially different from anticipated period-end financial results that were used initially to consider materiality for the financial statements as a whole).

### **Acceptance (Ref: par. 7[c][iv])**

**A12.** Documents containing financial statements that may include an indication that such financial statements have been reviewed by the entity’s accountant includes documents submitted to bonding companies.

### ***Agreement on Engagement Terms (Ref: par. 9-10)***

**A13.** Both management and the accountant have an interest in documenting the agreed-upon terms of the review engagement before the commencement of the review engagement to help avoid misunderstandings with respect to the review engagement. For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management

against certain risks or to perform certain functions, including those that are management's responsibility.

**A14.** The roles of management and those charged with governance in agreeing upon the terms of the review 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. When the agreement on the terms of engagement is only with those charged with governance, nonetheless in accordance with paragraph 7(c), the accountant is required to obtain management's agreement that it acknowledges and understands its responsibilities.

***Documenting the Understanding With Management (Ref: par. 9 and 48)***

**A15.** A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for review engagements is required by paragraph 9 to be in a documented form, and, accordingly, a verbal understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for review engagements.

**A16.** 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.

**A17.** An illustration of an engagement letter for a review of financial statements is presented in exhibit A, "Illustrative Engagement Letter."

**Professional Judgment (Ref: par. 12)**

**A18.** The distinguishing feature of the professional judgment expected of the accountant is that it is exercised by an accountant whose training, knowledge, and experience have assisted in developing the necessary competencies to achieve reasonable judgments and to make informed decisions about appropriate courses of action in undertaking a review engagement. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assists the accountant in making informed and reasonable judgments.

**A19.** The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known by the accountant throughout the engagement, including

- knowledge acquired from engagements carried out for the entity's financial statements in prior periods, where applicable.
- the accountant's understanding of the entity and its environment, including its accounting system, and of the application of the applicable financial reporting framework in the entity's industry.
- the extent to which the preparation and presentation of the financial statements requires the exercise of judgment by management.

**A20.** Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of SSARSs and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the accountant up to the date of the accountant's review report.

**A21.** Professional judgment needs to be exercised throughout the review. It also needs to be appropriately documented, in accordance with the requirements of this SSARS. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or the evidence obtained.

### **Understanding of the Industry (Ref: par. 13)**

**A22.** The requirement that the accountant possess a level of knowledge of the industry in which the entity operates does not prevent the accountant from accepting a review engagement for an entity in an industry with which the accountant has no previous experience. It does, however, place upon the accountant a responsibility to obtain the required level of knowledge. The accountant may do so, 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 knowledgeable about the industry.

### **Knowledge of the Entity (Ref: par. 14)**

**A23.** The accountant may obtain knowledge of the entity through inquiry of the entity's personnel, the review of documents prepared by the entity, or experience with the entity or the entity's industry. Such knowledge includes the following:

- An understanding of the entity's business
- An understanding of the accounting principles and practices used by the entity in measuring, recognizing recording, and disclosing all significant accounts and disclosures in the financial statements

**A24.** The accountant's understanding of the entity's business encompasses a general understanding of the client's organization; its operating characteristics; and the nature of its assets, liabilities, revenues, and expenses.

### **Designing and Performing Review Procedures (Ref: par. 16)**

**A25.** Review evidence obtained through the performance of analytical procedures and inquiry will ordinarily provide the accountant with a reasonable basis for obtaining limited assurance. However, in addition to analytical procedures and inquiries, in certain circumstances and based on the accountant's professional judgment, the accountant may perform procedures ordinarily performed in an audit. In such instances, the engagement remains a review, and the accountant is not required to perform an audit of the financial statements.

**A26.** The results of the accountant's analytical procedures and inquiries may modify the accountant's risk awareness. For example, the response to an inquiry that a related party transaction is not disclosed may revise the accountant's awareness of risk relative to related party transactions.

### **Analytical Procedures (Ref: par. 18-19)**

**A27.** Examples of analytical procedures that an accountant may consider performing when conducting a review of financial statements are contained in appendix A, “Analytical Procedures the Accountant May Consider Performing When Conducting a Review of Financial Statements.”

**A28.** Expectations developed by the accountant in performing analytical procedures in connection with a review of financial statements may be less precise than those developed in an audit. Also, in a review, the accountant is not required to corroborate management’s responses with other evidence.

**A29.** In considering plausible relationships, the accountant may wish to consider information developed and used by the entity (for example, analyses prepared for management or those charged with governance).

**A30.** Analytical procedures include the consideration of comparisons of the entity’s financial information with, for example, the following:

- Comparable information for prior periods
- Anticipated results of the entity, such as budgets or forecasts, or expectations of the accountant, such as an estimation of depreciation
- Similar industry information, such as a comparison of the entity’s ratio of sales to accounts receivable and gross margin percentages with industry averages or other entities of comparable size in the same industry

**A31.** Analytical procedures also include consideration of relationships, for example, the following:

- Among elements of financial information, such as gross margin percentages, that would be expected to conform to a predictable pattern based on recent history of the entity and industry
- Between financial information and relevant nonfinancial information, such as payroll costs to number of employees

**A32.** Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses. Analytical procedures may be performed at the financial statement level or at the detailed account level. The nature, timing, and extent of analytical procedures are a matter of professional judgment.

### ***Investigating Results of Analytical Procedures (Ref: par. 20[b])***

**A33.** Although the accountant is not required to corroborate management’s responses with other evidence, the need to perform other review procedures may arise when, for example, management is unable to provide an explanation or the explanation is not considered adequate.

### **Inquiries of Members of Management Who Have Responsibility for Financial and Accounting Matters (Ref: par. 21)**

**A34.** In addition to members of management who have responsibility for financial and accounting matters, the accountant may determine to direct inquiries to others within the entity and those charged with governance, if appropriate.

**A35.** Examples of unusual or complex situations about which the accountant may inquire of management are contained in appendix B, “Unusual or Complex Situations to Be Considered by the Accountant When Conducting a Review of Financial Statements.”

**A36.** Management may obtain knowledge of fraud or suspected fraud affecting the entity involving management or others when the fraud could have a material effect on the financial statements through, among other things, communications received from employees, former employees, or others.

**A37.** The accountant may obtain and read minutes from meetings of stockholders, the board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements as an effective and efficient procedure to meet the requirement in paragraph 21(m) to inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about actions taken at such meetings.

### **Reconciling the Financial Statements to the Underlying Accounting Records (Ref: par. 25)**

**A38.** To obtain evidence that the financial statements agree or reconcile with the accounting records, the accountant may compare the financial statements to (a) the accounting records, such as the general ledger; (b) a consolidating schedule derived from the accounting records; or (c) other supporting data in the entity’s records.

### **Evaluating Evidence Obtained From the Procedures Performed (Ref: par. 29-30 and 39[f])**

**A39.** Considerations that may affect the evaluation of whether uncorrected misstatements, individually or in the aggregate, are material include the following:

- The nature, cause (if known), and amount of the misstatements
- Whether the misstatements originated in the preceding year
- The potential effect of the misstatements on future periods
- The appropriateness of offsetting a misstatement of an estimated amount with a misstatement of an item capable of precise measurement
- Recognition that an accumulation of immaterial misstatements in the balance sheet could contribute to material misstatements in future periods

**A40.** The accountant’s responsibilities when the accountant concludes that the financial statements are materially misstated is addressed in paragraphs 9–13 of the proposed SSARS *Review of Financial Statements—Special Considerations* with respect to known departures from the applicable financial reporting framework.

### **Written Representations**

#### ***Written Representations as Review Evidence (Ref: par. 30)***

**A41.** Written representations are an important source of review evidence. If management modifies or does not provide the requested written representations, it may alert the accountant to the possibility that one or more significant issues may exist. Further, a request for written rather than oral representations, in many cases, may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.

***Management From Whom Written Representations Are Requested (Ref: par. 31)***

**A42.** Written representations are requested from those with overall responsibility for financial and operating matters whom the accountant believes are responsible for, and knowledgeable about, directly or through others in the organization, the matters covered by the representations, including the preparation and fair presentation of the financial statements. Those individuals may vary depending on the governance structure of the entity; however, management (rather than those charged with governance) is often the responsible party. Written representations may therefore be requested from the entity's CEO and CFO or other equivalent persons in entities who do not use such titles. In some circumstances, however, other parties, such as those charged with governance, also are responsible for the preparation and fair presentation of the financial statements.

**A43.** Due to its responsibility for the preparation and fair presentation of the financial statements and its responsibility for the conduct of the entity's business, management would be expected to have sufficient knowledge of the process followed by the entity in preparing the financial statements on which to base the written representations.

**A44.** In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the accountant to accept such wording if, in the accountant's judgment, the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

***Specific Written Representations (Ref: par. 32)***

**A45.** Review evidence obtained during the review that management has acknowledged the responsibilities referred to in paragraphs 32(a) and 32(b) is not sufficient without obtaining representation from management that it believes that it has fulfilled those responsibilities. This is because the accountant is not able to judge solely on other review evidence whether management has prepared and fairly presented the financial statements and provided information to the accountant on the basis of the agreed acknowledgment and understanding of its responsibilities.

**A46.** The written representations relating to fraud required by paragraphs 32(e) and 32(f) are important for the accountant to obtain, regardless of the size of the entity, because of the nature of fraud and the difficulties encountered by accountants in detecting material misstatements in the financial statements resulting from fraud.

**A47.** Because the preparation of financial statements requires management to adjust the financial statements to correct material misstatements, the accountant is required to request management to provide a written representation about uncorrected misstatements. In some circumstances, management may not believe that certain uncorrected misstatements are misstatements. For that reason, management may want to add to their written representation

words such as “We do not agree that items... and... constitute misstatements because [*description of reasons*].”

**A48.** Circumstances in which it may be appropriate to obtain written representations about related parties from those charged with governance in addition to management include the following:

- When they have approved specific related party transactions that (a) materially affect the financial statements or (b) involve management
- When they have made specific oral representations to the accountant on details of certain related party transactions
- When they have financial or other interests in the related parties or the related party transactions

**A49.** Because written representations are necessary review evidence, the accountant has not obtained limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework, and the accountant’s review report cannot be dated, before the date of the written representations. Furthermore, because the accountant is concerned with events occurring up to the date of the accountant’s review report that may require adjustment to, or disclosure in, the financial statements, the written representations are dated as of the date of the accountant’s review report on the financial statements.

**A50.** The written representations cover all periods referred to in the accountant’s review report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The accountant and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

**A51.** Situations may arise in which current management was not present during all periods referred to in the accountant’s review report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons’ responsibilities for the financial statements as a whole. Accordingly, the requirement for the accountant to request from them written representations that cover the whole of the relevant period(s) still applies.

***Form of Written Representations (Ref: par. 34)***

**A52.** Occasionally, circumstances may prevent management from signing the representation letter and returning it to the accountant on the date of the accountant’s review report. In those circumstances, the accountant may accept management’s oral confirmation, on or before the date of the accountant’s review report, that management has reviewed the final representation letter and will sign the representation letter without exception as of the date of the accountant’s review report. Possession of the signed management representation letter prior to releasing the accountant’s review report is necessary because paragraph 34 requires that the representations be in the form of a written letter from management. Furthermore, when there are delays in releasing

the report, a fact may become known to the accountant that, had it been known to the accountant at the date of the accountant's review report, might affect the accountant's review report and result in the need for updated representations.

**A53.** Exhibit B, "Illustrative Representation Letter," provides an illustrative example of a representation letter.

***Concerns About the Reliability of Written Representations and Requested Written Representations Not Provided (Ref: par. 35)***

**A54.** Appropriate action when management does not provide one or more requested written representations or when the accountant has concerns about the reliability of the representations may include

- discussing the matter with management and, when relevant, those charged with governance;
- reevaluating the integrity of management and evaluating the effect this may have on the reliability of representations (oral or written) and evidence in general; and
- considering whether to withdraw from the engagement to review the financial statements.

**Reporting on the Financial Statements (Ref: par. 36)**

**A55.** A written report encompasses reports issued in hard copy format and those using an electronic medium.

**A56.** Financial statements that the accountant has reviewed may become unattached from the accountant's review report. To minimize the possibility that a user of the reviewed financial statements may infer, through the accountant's association with the reviewed financial statements, an unintended level of reliance on the reviewed financial statements, the accountant may consider including a reference on each page of the reviewed financial statements to the accountant's review report. An example of a reference to the accountant's review report included on each page of the reviewed financial statements is "See independent accountant's review report."

**A57.** When the accountant is unable to perform the inquiry and analytical procedures he or she considers necessary to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework, or the client does not provide the accountant with a representation letter, the review will be incomplete. A review that is incomplete does not provide an adequate basis for issuing a review report.

***Accountant's Review Report (Ref: par. 37)***

*Title*

**A58.** An appropriate title would be "Independent Accountant's Review Report."

*Addressee*

**A59.** The accountant’s review report is normally addressed to those for whom the report is prepared. The report may be addressed to the entity whose financial statements are being reviewed or to those charged with governance. A report on financial statements of an unincorporated entity may be addressed as circumstances dictate (for example, to the partners, general partner, or proprietor). Occasionally, an accountant may be retained to review the financial statements of an entity that is not a client; in such a case, the report may be addressed to the entity and not to those charged with governance of the entity whose financial statements are being reviewed.

#### *Introductory Paragraph*

**A60.** The introductory paragraph states, for example, that the accountant has “reviewed the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, 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.” If the financial statements include a separate statement of changes in stockholders’ equity accounts or a separate statement of comprehensive income, paragraph 37(c)(iii) requires such statements to be identified in the introductory paragraph of the report as a statement to which the financial statements are comprised.

**A61.** When the accountant is aware that the reviewed financial statements will be included in a document that contains other information, such as an annual report, the accountant may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial statements are presented. This helps users identify the financial statements to which the accountant’s review report relates.

**A62.** The identification of the title for each statement that the financial statements comprise may be achieved by referencing the table of contents.

#### *Management’s Responsibility*

**A63.** AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*), explains the premise relating to the responsibilities of management and, when appropriate, those charged with governance on which an engagement in accordance with SSARs is conducted.<sup>1</sup> Management, and when appropriate, those charged with governance, accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for 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. The description of management’s responsibilities in the accountant’s review report includes reference to both responsibilities because it helps explain to users the premise on which a review is conducted.

#### *Accountant’s Responsibility*

**A64.** The accountant’s review report states that the accountant’s responsibility is to conduct the review engagement in accordance with SSARs promulgated by the Accounting and Review

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<sup>1</sup> Paragraphs .30–.33 of AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*).

Services Committee of the AICPA in order to contrast it to management's responsibility for the financial statements.

**A65.** The reference to the standards used conveys to users of the accountant's review report that the review engagement has been conducted in accordance with established standards.

**A66.** The accountant is not permitted to represent compliance with SSARSs in the accountant's review report unless the accountant has complied with the requirements of this proposed SSARS.

*Signature of the Accountant*

**A67.** The city and state where the accountant practices may be indicated on letterhead that contains the issuing office's city and state.

*Date of the Accountant's Review Report*

**A68.** The date of the accountant's review report informs users of the accountant's review report that the accountant has considered the effect of events and transactions of which the accountant became aware and that occurred up to that date. The accountant's responsibility for events and transactions after the date of the accountant's review report is addressed in paragraphs 24–30 of the proposed SSARS *Review of Financial Statements—Special Considerations*.

**A69.** Because the accountant's conclusion is provided on the financial statements, and the financial statements are the responsibility of management, the accountant is not in position to conclude that the accountant has obtained limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework until evidence is obtained that all the statements that the financial statements comprise, including the related notes, have been prepared, and management has accepted responsibility for them.

**A70.** Exhibit C, "Illustrations of Accountant's Review Reports on Financial Statements," contains illustrations of accountant's review reports on financial statements incorporating the elements required by paragraph 37.

***Accountant's Review Report on Financial Statements Prepared in Accordance With a Special Purpose Framework (Ref: par. 38-43)***

**A71.** 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. Accordingly, the accountant is required by paragraph 38(a) to consider whether the financial statements are suitably titled, for example

- a cash basis financial statement might be titled "Statement of Cash Receipts and Disbursements."
- financial statements prepared in accordance with the tax basis of accounting might be titled
  - "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 might be titled “Statement of Income—Regulatory Basis.”

**A72.** 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. The differences need not be quantified.

**A73.** 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.

**A74.** When the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, the accountant is required by paragraph 41 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.

**A75.** When use of the accountant’s review report is restricted, the intended users are the specified parties. The restriction on use of the accountant’s review report is necessary due to the nature of the report and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used. For example, special purpose financial statements prepared in accordance with a contractual basis of accounting are developed for and directed only to the parties to the contract or agreement. Paragraphs 16–17 of the proposed SSARS *Review of Financial Statements—Special Considerations* addresses adding other parties as specified parties.

### **Comparative Financial Statements (Ref: par. 44-46)**

**A76.** The level of information included for the prior periods in comparative financial statements is comparable with that of financial statements of the current period.

### ***Updating the Report***

**A77.** An updated report is issued in conjunction with the continuing accountant’s report on the current period financial statements.

### ***Other Considerations Relating to Comparative Financial Statements***

**A78.** If one firm of accountants merges with another firm, and the new firm becomes the accountant of a client of one of the two former firms, the new firm may issue a review report on the financial statements of the prior period(s), as well as on the current period financial

statements. The new firm may indicate in the accountant's review report or as part of the signature that a merger took place and may name the firm of accountants that was merged with it.

### **Communicating to Management and Others Regarding Fraud or Noncompliance With Laws and Regulations (Ref: par. 47)**

**A79.** The communication of matters involving identified or suspected noncompliance may describe the act of identified or suspected noncompliance, the circumstances of its occurrence, and the effect on the financial statements. The accountant may reach agreement in advance with management and those charged with governance, if applicable, on the nature and amount of matters that would be considered not material and, thus, need not be communicated.

**A80.** The disclosure of any evidence or information that comes to the accountant's attention during the performance of review procedures that fraud or noncompliance with laws or regulations may have occurred to parties other than the client's senior management (or those charged with governance, if applicable) ordinarily is not part of the accountant's responsibility and, ordinarily, would be precluded by the accountant's ethical or legal obligations of confidentiality.

**A81.** A duty to disclose to parties outside of the entity may exist in the following circumstances:

- a. To comply with certain legal and regulatory requirements
- b. To a successor accountant when the successor accountant has been given permission by management to communicate with the predecessor accountant regarding acceptance of an engagement to compile or review the financial statements of a nonissuer
- c. In response to a subpoena

In such circumstances, the accountant may consider it appropriate to consult with legal counsel.

**A82.** The accountant may consider whether withdrawal from the engagement is necessary when

- management or those charged with governance do not take the remedial action that the accountant considers necessary in the circumstances or
- matters regarding fraud or noncompliance with laws or regulations involve an owner of the business.

When deciding whether withdrawal from the engagement is necessary, the accountant may consider seeking legal advice.

### **Review Documentation**

#### ***Documentation of the Review Procedures Performed and Review Evidence Obtained (Ref: par. 48)***

**A83.** Review documentation may be recorded on paper or on electronic or other media.

**A84.** The accountant need not include in review documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

**A85.** The accountant is not precluded from supporting the review report by other means in addition to the review documentation. Such other means might include written documentation contained in other engagement files (for example, compilation or nonattest services) or quality control files (for example, consultation files) and, in limited situations, oral explanations. On their own, oral explanations by the accountant do not represent adequate support for the work the accountant performed or conclusions reached, but they may be used to explain or clarify information contained in the review documentation.

**A86.** In the case of a review in which the engagement partner performs all of the review work, the engagement partner is still required to comply with the overriding requirement in paragraph 48 to prepare review documentation that can be understood by an experienced accountant, because the review documentation may be subject to review by external parties.

**A87.** Findings or issues that, in the accountant's professional judgment are significant may include the results of review procedures that indicate that the financial statements could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions.

A88.

## **Appendix A—Analytical Procedures the Accountant May Consider Performing When Conducting a Review of Financial Statements (Ref: par. A27)**

Analytical procedures are designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement of the financial statements. Examples of analytical procedures that an accountant may consider performing in a review of financial statements include the following:

- Comparing current financial statements with the financial statements of the prior period.
- Comparing current financial statements with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes and pretax income in the current financial statements with corresponding information in [a] budgets, using expected rates, and [b] financial statements for prior periods). Caution is necessary when comparing and evaluating current financial statements with budgets, forecasts, or other anticipated results because of the inherent lack of precision in estimating the future and the susceptibility of such information to manipulation and misstatement by management to reflect desired results.
- Comparing current financial statements with relevant nonfinancial information.
- Comparing ratios and indicators for the current period with expectations based on prior periods (for example, performing gross profit analysis by product line and operating segment using elements of the current financial statements and comparing the results with corresponding information for prior periods). Examples of key ratios and indicators are the current ratio, receivable turnover or days sales outstanding, inventory turnover, depreciation to average fixed assets, debt to equity, gross profit percentage, net income percentage, and plant operating rates.
- Comparing ratios and indicators for the current period with those of entities in the same industry.
- Comparing relationships among elements in the current financial statements with corresponding relationships in the financial statements of prior periods (for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables).
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
  - By period (for example, financial statement items disaggregated into quarterly, monthly, or weekly amounts)
  - By product line or operating segment
  - By location (for example, subsidiary, division, or branch)

Analytical procedures may include such statistical techniques as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques.

**A89.**

**Appendix B—Unusual or Complex Situations to Be Considered by the Accountant When Conducting a Review of Financial Statements (Ref: par. A35)**

The following are examples of situations about which the accountant may inquire of management:

- Business combinations
- New or complex revenue recognition methods
- Impairment of assets
- Disposal of a segment of a business
- Use of derivative instruments and hedging activities
- Sales and transfers that may call into question the classification of investments in securities, including management's intent and ability with respect to the remaining securities classified as held to maturity
- Adoption of new stock compensation plans or changes to existing plans
- Restructuring charges taken in the current and prior periods
- Significant, unusual, or infrequently occurring transactions
- Changes in litigation or contingencies
- Changes in major contracts with customers or suppliers
- Application of new accounting principles
- Changes in accounting principles or the methods of applying them
- Trends and developments affecting accounting estimates, such as allowances for bad debts and excess or obsolete inventories, provisions for warranties and employee benefits, and realization of unearned income and deferred charges
- Compliance with debt covenants
- Changes in related parties or significant new related party transactions
- Material off-balance-sheet transactions, special purpose entities, and other equity investments
- Unique terms for debt or capital stock that could affect classification

A90.

## Exhibit A—Illustrative Engagement Letter

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

To the appropriate representative of management of ABC Company:<sup>1</sup>

You<sup>2</sup> have requested that we review 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. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

*[The objective of the review engagement]*

The objective of a review engagement is to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America.

*[The responsibilities of the accountant]*

We will conduct our review engagement in accordance with SSARSs.

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

Our engagement cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations. However, we will inform the appropriate level of management of any material errors

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<sup>1</sup> The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the review engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A19.

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

and of any evidence or information that comes to our attention during the performance of our review procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our review procedures regarding noncompliance with laws and regulations that may have occurred, unless they are not material.

*[The responsibilities of management and identification of the applicable financial reporting framework]*

Our review engagement will be conducted on the basis that *[management]*<sup>3</sup> acknowledges and understands that it has responsibility

- a. for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. for 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; and
- c. to provide us with access to all financial records and related information that we have requested.
- d. providing us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

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

*[Reporting]*

*[Insert appropriate reference to the expected form and content of the accountant's review report. Example follows:]*

We will issue a written report upon completion of our review of ABC Company's financial statements. Our report will be addressed to the board of directors of ABC Company. We cannot provide assurance that an unmodified accountant's review report will be issued. Circumstances may arise in which it is necessary of us to report known departures from accounting principles generally accepted in the United States of America, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. If, for any reason, we are unable to complete the review of your financial statements, we will not issue a report on such statements as a result of this engagement.

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<sup>3</sup> Use terminology as appropriate in the circumstances.

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

Sincerely yours,

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

Acknowledged and agreed on behalf of ABC Company by:

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*[Signed]*

*[Name and title]*

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*[Date]*

A91.

## Exhibit B—Illustrative Representation Letter

The following illustrative letter includes written representations that are required by Statements on Standards for Accounting and Review Services. It is assumed in this illustration that the applicable financial reporting framework is accounting principles generally accepted in the United States of America and that no exceptions exist to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Accountant)

(Date)

This representation letter is provided in connection with your review of 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, for the purpose of obtaining limited assurance as a basis for reporting whether you are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We represent that [*to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves*] [as of (date of accountant's review report),]:

### Financial Statements

- We acknowledge our responsibility and have fulfilled our responsibilities for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- We acknowledge our responsibility and have fulfilled our responsibilities for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
- Guarantees, whether written or oral, under which the company is contingently liable have been properly accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
- Significant estimates and material concentrations known to management that are required to be disclosed in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 275, *Risks and Uncertainties*, have been properly accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America. [*Significant estimates are estimates at the balance sheet date that could change materially with the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.*]
- All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

[Any other matters that the accountant may consider appropriate.]

### **Information Provided**

- We have responded fully and truthfully to all inquiries made to us by you during your review.
- We have provided you with
  - access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - minutes of meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared;
  - additional information that you have requested from us for the purpose of the review; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain review evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

- We have [no knowledge of any][disclosed to you all information that we are aware of regarding] fraud or suspected fraud that affects the entity and involves
  - management,
  - employees who have significant roles in internal control, or
  - others when the fraud could have a material effect on the financial statements.
- We have [no knowledge of any][disclosed to you all information that we are aware of regarding] allegations of fraud, or suspected fraud, affecting the entity’s financial statements as a whole communicated by employees, former employees, analysts, regulators or others.
- We have no plans or intentions that may materially affect the carrying amounts or classification of assets and liabilities.
- We have disclosed to you all known instances of noncompliance or suspected noncompliance with law or regulation whose effects should be considered when preparing financial statements.
- We [have disclosed to you all known actual or possible] [are not aware of any pending or threatened] litigation and claims whose effects should be considered when preparing the financial statements [and we have not consulted legal counsel concerning litigation or claims]
- We have disclosed to you any other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
- We have disclosed to you the identity of the entity’s related parties and all the related party relationships and transactions of which we are aware.
- No material losses exist (such as from obsolete inventory or purchase or sale commitments) that have not been properly accrued or disclosed in the financial statements.
- The Company has satisfactory title to all owned assets, and no liens or encumbrances on such assets exist, nor has any asset been pledged as collateral, except as disclosed to you and reported in the financial statements.
- We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- We are in agreement with the agreement with the adjusting journal entries that you have recommended, and they have been posted to the company’s accounts (if applicable).

[Any other matters that the auditor may consider necessary.]

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[Name of Chief Executive Officer and Title]

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[Name of Chief Financial Officer and Title]

Representation letters ordinarily are tailored to include additional appropriate representations from management relating to matters specific to the entity's business or industry.

A92.

## **Exhibit C—Illustrations of Accountant’s Review Reports on Financial Statements**

This exhibit is an interpretive publication, pursuant to paragraph .18 of AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*). Interpretive publications are recommendations on the application of the Statements on Standards for Accounting and Review Services (SSARSs) in specific circumstances. An interpretive publication is issued under the authority of the Accounting and Review Services Committee (ARSC) after all ARSC members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with the SSARSs.

**Illustration 1**—An Accountant’s Review Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When a Review Has Been Performed for Both Periods

**Illustration 2**—An Accountant’s Review Report on Single Year Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

**Illustration 3**—An Accountant’s Review Report on Single Year Financial Statements Prepared in Accordance With the Tax-Basis of Accounting

**Illustration 4**—An Accountant’s Review Report on Interim Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America (the accountant appropriately performs the review engagement in accordance with SSARSs)

**Illustration 1—An Accountant’s Review Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When a Review Has Been Performed for Both Periods**

Circumstances include the following:

- Review of a complete set of comparative financial statements.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

**Independent Accountant’s Review Report**

*[Appropriate Addressee]*

I (we) have reviewed the accompanying balance sheets of XYZ Company 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. A review includes primarily applying analytical procedures to management’s (owners’) financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

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

Management (owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

***Accountant’s Responsibility***

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

***Accountant’s Conclusion***

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with 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 review report]*

## **Illustration 2—An Accountant’s Review Report on a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America**

Circumstances include the following:

- Review of a complete set of financial statements (single year).
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

### **Independent Accountant’s Review Report**

[Appropriate Addressee]

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

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

Management (owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

#### ***Accountant’s Responsibility***

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

#### ***Accountant’s Conclusion***

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with 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 review report]

### **Illustration 3—An Accountant’s Review Report on Single Year Financial Statements Prepared in Accordance With the Tax Basis of Accounting**

Circumstances include the following:

- Review of a complete set of financial statements (single year).
- The financial statements are of a partnership and are prepared in accordance with the basis of accounting the partnership uses for income tax purposes (that is, a special purpose framework).
- Management has a choice of financial reporting frameworks.

#### **Independent Accountant’s Review Report**

[Appropriate Addressee]

I (we) have reviewed the accompanying statement of assets, liabilities, and partners’ capital—tax-basis of XYZ Partnership as of December 31, 20XX, and the related statements of revenue and expenses—tax-basis, and partners’ capital—tax-basis for the year then ended. A review includes primarily applying analytical procedures to management’s (partners’) financial data and making inquiries of partnership management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statement as a whole. Accordingly, I (we) do not express such an opinion.

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

Management (partners) is (are) responsible for the preparation and fair presentation of this financial statement in accordance with the basis of accounting the Partnership uses for income tax purposes; this includes determining that the basis of accounting the Partnership uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management (partners) is (are) also responsible for the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the financial statements in accordance with the basis of accounting the Partnership uses for income tax purposes.

#### ***Accountant’s Responsibility***

My (our) responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with the basis of accounting the Partnership uses for income tax purposes. I (We) believe that the results of my (our) procedures provide a reasonable basis for our report.

#### ***Accountant’s Conclusion***

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the Partnership uses for income tax purposes.

***Basis of Accounting***

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 basis of accounting the Partnership uses for income tax purposes, 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 review report]*

## **Illustration 4: An Accountant's Review Report on Interim Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America**

Circumstances include the following:

- Review of a complete set of financial statements for the period ended September 30, 20XX, and for the three and nine months then ended.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.
- The accountant appropriately performs the engagement in accordance with SSARSs (that is, AU-C section 930, *Interim Financial Information* [AICPA, *Professional Standards*], is not applicable).

### **Independent Accountant's Review Report**

[*Appropriate Addressee*]

I (we) have reviewed the accompanying balance sheet of XYZ Company as of September 30, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the three and nine months then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

#### ***Management's Responsibility for the Financial Statements***

Management (owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

#### ***Accountant's Responsibility***

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

#### ***Accountant's Conclusion***

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with 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 review report]*

# PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

## REVIEW OF FINANCIAL STATEMENTS—SPECIAL CONSIDERATIONS

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# **Proposed Statement on Standards for Accounting and Review Services *Review of Financial Statements—Special Considerations***

## **Introduction**

### **Scope of This Proposed Statement on Standards for Accounting and Review Services**

1. The proposed Statement on Standards for Accounting and Review Services (SSARS) *Review of Financial Statements* applies to a review of financial statements. This proposed SSARS addresses special considerations in the application of the proposed SSARS *Review of Financial Statements* to a review when certain special situations are present.

### **Effective Date**

2. This proposed SSARS is effective for reviews of financial statements for periods ending on or after December 15, 2014.

## **Objectives**

3. The objective of the accountant is to address the following special situations when such situations are present in a review of financial statements:

- The need to draw users' attention, when required or when in the accountant's judgment it is necessary to do so, by way of an emphasis-of-matter paragraph or an other-matter paragraph in the accountant's review report (paragraphs 5–8)
- To express known departures from the applicable financial reporting framework in the accountant's review report (paragraphs 9–13)
- To include an alert that restricts the use of the accountant's review report when the potential exists for the accountant's review report to be misunderstood if taken out of the context in which it is intended to be used (paragraphs 14–17)
- The accountant's consideration of an entity's ability to continue as a going concern (paragraphs 18–21)
- The accountant's consideration of subsequent events and subsequent discovery of facts (paragraphs 22–30)
- The accountant decides to reference the work of other accountants who audited or reviewed the financial statements of significant components in an accountant's review report (paragraphs 31–32)
- Information is presented for supplementary analysis purposes that accompanies reviewed financial statements (paragraphs 33–37)
- Request to change the engagement from an audit to a review (paragraphs 38–43)

## **Definitions**

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

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

**Designated accounting standard setter.** A body designated by the Council of the AICPA to promulgate accounting principles generally accepted in the United States of America pursuant to Rule 202, *Compliance With Standards* (AICPA, *Professional Standards*, ET sec. 202 par. .01), and Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .01), of the AICPA Code of Professional Conduct.

**Report release date.** The date the accountant grants the entity permission to use the accountant's review report in connection with the financial statements.

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

**Specified parties.** The intended users of the accountant's review report.

**Subsequent events.** Events occurring between the date of the financial statements and the date of the accountant's review report.

**Subsequently discovered facts.** Facts that become known to the accountant after the date of the accountant's review report that, had they been known to the accountant at that date, may have caused the accountant to revise the accountant's review report.

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

## **Emphasis-of-Matter and Other-Matter Paragraphs in the Accountant's Review Report**

### ***Emphasis-of-Matter Paragraphs in the Accountant's Review Report***

**5.** If the accountant considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the accountant should include an emphasis-of-matter paragraph in the accountant's review report, provided that the accountant does not believe that the financial statements may be materially misstated. Such a paragraph should refer only to information presented or disclosed in the financial statements. (Ref: par. A1-A4)

**6.** When the accountant includes an emphasis-of-matter paragraph in the accountant's review report, the accountant should

- a. include it immediately after the accountant's conclusion paragraph in the accountant's review report,
- b. use the heading "Emphasis of a Matter" or other appropriate heading, (Ref: par. A5)

- c. include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements, and
- d. indicate that the accountant's conclusion is not modified with respect to the matter emphasized. (Ref: par A5)

### ***Other-Matter Paragraphs in the Accountant's Review Report***

7. If the accountant considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the accountant's professional judgment, is relevant to the users' understanding of the review, the accountant's responsibilities, or the accountant's review report, the accountant should do so in a paragraph in the accountant's review report with the heading "Other Matter" or other appropriate heading. The accountant should include this paragraph immediately after the accountant's conclusion paragraph and any emphasis-of-matter paragraph. (Ref: par. A1 and A6-A8)

### ***Communication With Management***

8. If the accountant expects to include an emphasis-of-matter or other-matter paragraph in the accountant's review report, the accountant should communicate with management regarding this expectation and the proposed wording of this paragraph. (Ref: par. A9-A10)

### **Known Departures From the Applicable Financial Reporting Framework**

9. When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements, if the financial statements are not revised, the accountant should consider whether modification of the standard report is adequate to disclose the departure.

10. If the accountant concludes that modification of the standard report is appropriate, the departure should be disclosed in an emphasis-of-matter or an other-matter paragraph of the report under the heading "Known Departures From the [*identity the applicable financial reporting framework*]," including disclosure of the effects of the departure on the financial statements if such effects have been determined by management or are known to the accountant as the result of the accountant's procedures. (Ref: par. A11 and A13)

11. If the effects of the departure have not been determined by management or are not 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.

12. If the accountant believes that modification of the standard report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the review engagement and provide no further services with respect to those financial statements. (Ref: par. A12)

13. The accountant should not modify the standard report to include a statement that the financial statements are not in accordance 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.

### **Alert That Restricts the Use of the Accountant's Review Report**

**14.** An accountant's review report should include an alert, in a separate paragraph, that restricts its use when the subject matter of the accountant's review report is based on (Ref: par. A14-A16)

- a. measurement or disclosure criteria that are determined by the accountant to be suitable only for a limited number of users who can be presumed to have an adequate understanding of the criteria or
- b. measurement or disclosure criteria that are available only to the specified parties.

**15.** The alert that restricts the use of the accountant's review report required by paragraph 14 should

- a. state that the accountant's review report is intended solely for the information and use of the specified parties.
- b. identify the specified parties for whom use is intended.
- c. state that the accountant's review report is not intended to be and should not be used by anyone other than the specified parties. (Ref: par. A17)

### ***Adding Other Specified Parties***

**16.** When, in accordance with paragraph 14, the accountant includes an alert that restricts the use of the accountant's review report to certain specified parties and the accountant is requested to add other parties as specified parties, the accountant should determine whether to agree to add the other parties as specified parties. (Ref: par. A18)

**17.** If the other parties are added after the release of the accountant's review report, the accountant should take one of the following actions:

- a. Amend the accountant's review report to add the other parties. In such circumstances, the accountant should not change the original date of the accountant's review report.
- b. Provide a written acknowledgment to management and the other parties that such parties have been added as specified parties. The accountant should state in the acknowledgment that no procedures were performed subsequent to the original date of the accountant's review report.

### **The Accountant's Consideration of an Entity's Ability to Continue as a Going Concern**

#### ***Consideration of Conditions or Events That Indicate That There Could be an Uncertainty About the Entity's Ability to Continue as a Going Concern***

**18.** The accountant should consider whether, during the performance of review procedures, evidence or information came to the accountant's attention indicating that there could be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of

time, not to exceed one year beyond the date of the financial statements being reviewed (hereinafter referred to as a *reasonable period of time*). (Ref: par. A19)

**19.** If, after considering the evidence or information from paragraph 18, the accountant believes that there is an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the accountant should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure. (Ref: par. A20)

### ***Consideration of Financial Statement Effects***

**20.** After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, the accountant should consider the reasonableness of management's conclusions, including the adequacy of the related disclosure.

### ***Consideration of the Effects on the Accountant's Review Report***

**21.** If the accountant determines that the entity's disclosures with respect to the entity's ability to continue as a going concern for a reasonable period of time are inadequate, a departure from the applicable financial reporting framework exists and the accountant should follow the guidance in paragraphs 9–13. (Ref: par. A21-A23)

## **Subsequent Events and Subsequently Discovered Facts**

### ***Subsequent Events***

**22.** When evidence or information that subsequent events that require adjustment of, or disclosure in, the financial statements comes to the accountant's attention, the accountant should request that management consider whether each such event is appropriately reflected in the financial statements in accordance with the applicable financial reporting framework. (Ref: par. A24)

**23.** If the accountant determines that the subsequent event is not adequately accounted for in the financial statements or disclosed in the notes, the accountant should follow the guidance in paragraphs 9–13.

### ***Subsequently Discovered Facts That Become Known to the Accountant Before the Report Release Date***

**24.** The accountant is not required to perform any review procedures regarding the financial statements after the date of the accountant's review report. However, if a subsequently discovered fact becomes known to the accountant before the report release date, the accountant should

- a. discuss the matter with management and, when appropriate, those charged with governance and
- b. determine whether the financial statements need revision and, if so, inquire how management intends to address the matter in the financial statements.

- 25.** If management revises the financial statements, the accountant should perform the review procedures necessary in the circumstances on the revision. The accountant also should either
- a. date the accountant's review report as of a later date or
  - b. include an additional date in the accountant's review report on the revised financial statements that is limited to the revision (that is, dual-date the accountant's review report for that revision), thereby indicating that the accountant's review procedures subsequent to the original date of the accountant's review report are limited solely to the revision of the financial statements described in the relevant note to the financial statements.
- 26.** If management does not revise the financial statements in circumstances when the accountant believes they need to be revised, the accountant should modify the accountant's review report, as appropriate.

***Subsequently Discovered Facts That Become Known to the Accountant After the Report Release Date***

- 27.** If a subsequently discovered fact becomes known to the accountant after the report release date, the accountant should (Ref: par. A25-A26)
- a. discuss the matter with management and, when appropriate, those charged with governance and
  - b. determine whether the financial statements need revision and, if so, inquire how management intends to address the matter in the financial statements.
- 28.** If management revises the financial statements, the accountant should
- a. apply the requirements of paragraph 25.
  - b. if the reviewed financial statements (before revision) have been made available to third parties, assess whether the steps taken by management are timely and appropriate to ensure that anyone in receipt of those financial statements is informed of the situation, including that the reviewed financial statements are not to be used. If management does not take the necessary steps, the accountant should apply the requirements of paragraph 30. (Ref: par. A27)
  - c. if the accountant's review report on the revised financial statements differs from accountant's review report on the original financial statements, disclose in an emphasis-of-matter paragraph, in accordance with paragraphs 5–6,
    - i. the date of the accountant's previous report,
    - ii. a description of the revisions, and
    - iii. the substantive reasons for the revisions.
- 29.** If management does not revise the financial statements in circumstances when the accountant believes they need to be revised, then
- a. if the reviewed financial statements have not been made available to third parties, the accountant should notify management and those charged with governance, unless all of those charged with governance are involved in managing the entity, not to make the

reviewed financial statements available to third parties before the necessary revisions have been made and a new accountant's review report on the revised financial statements has been provided. If the reviewed financial statements are, nevertheless, subsequently made available to third parties without the necessary revisions, the accountant should apply the requirements of paragraph 29(b).

- b.* if the reviewed financial statements have been made available to third parties, the accountant should assess whether the steps taken by management are timely and appropriate to ensure that anyone in receipt of the reviewed financial statements is informed of the situation, including that the reviewed financial statements are not to be used. If management does not take the necessary steps, the accountant should apply the requirements of paragraph 30. (Ref: par. A27)

**30.** If management does not take the necessary steps to ensure that anyone in receipt of the financial statements is informed of the situation, as provided by paragraphs 28(b) or 29(b), the accountant should notify management and those charged with governance, unless all of those charged with governance are involved in managing the entity, that the accountant will seek to prevent future use of the accountant's review report. If, despite such notification, management or those charged with governance do not take the necessary steps, the accountant should take appropriate action to seek to prevent use of the accountant's review report. (Ref: par. A26-A29)

### **Reference to the Work of Other Accountants in an Accountant's Review Report**

**31.** If other accountants audited or reviewed the financial statements of significant components, such as consolidated and unconsolidated subsidiaries and investees, and the accountant of the reporting entity decides not to assume responsibility for the audit or review performed by the other accountants, the accountant of the reporting entity should make reference to the review or audit of such other accountants in the accountant's review report. In that instance, the accountant should clearly indicate in the accountant's review report that the accountant used the work of other accountants and should include the magnitude of the portion of the financial statements audited or reviewed by the other accountants. (Ref: par. A30-A32)

**32.** Whether or not the accountant of the reporting entity decides to make reference to the review or audit of other accountants, the accountant of the reporting entity should communicate with the other accountants and ascertain

- a.* that the other accountants are aware that the financial statements of the component which the other accountants have audited or reviewed are to be included in the financial statements on which the accountant of the reporting entity will report and that the other accountants' report thereon will be relied upon (and, where applicable, referred to) by the accountant of the reporting entity.
- b.* that the other accountants are familiar with the applicable financial reporting framework and with SSARSs or auditing standards generally accepted in the United States of America, as applicable and will conduct the review or audit in accordance therewith.
- c.* that a review will be made of matters affecting elimination of intercompany transactions and accounts and, if appropriate in the circumstances, the uniformity of accounting practices among the components included in the financial statements.

## **Information Presented For Supplementary Analysis Purposes That Accompanies Reviewed Financial Statements**

**33.** When information presented for supplementary analysis purposes accompanies reviewed financial statements, the accountant should include an other-matter paragraph in the accountant's review report on the financial statements to clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information. (Ref: par. A35)

**34.** When the accountant has reviewed both the financial statements and the information presented for supplementary analysis purposes, the accountant should report on such information in either (a) an other-matter paragraph in the accountant's review report on the financial statements or (b) a separate report on the information presented for supplementary analysis purposes. The other-matter paragraph in the accountant's review report on the financial statements or the separate report on the information presented for supplementary analysis purposes should state that (Ref: par. A36-A37)

- a. the information is presented for purposes of additional analysis and is not a required part of the financial statements and
- b. the information has been reviewed from information that is the representation of management, and the accountant has not audited the information and, accordingly, does not express an opinion on such information.

### ***Required Supplementary Information***

**35.** In regards to the requirement in paragraph 33, with respect to required supplementary information, the other-matter paragraph should include language to explain the following circumstances, as applicable: (ref: par. A38)

- a. The required supplementary information is included, and the accountant compiled the required supplementary information.
- b. The required supplementary information is included, and the accountant reviewed the required supplementary information.
- c. The required supplementary information is included, and the accountant did not compile, review, or audit the required supplementary information.
- d. The required supplementary information is omitted.
- e. Some required supplementary information is missing, and some is presented in accordance with the prescribed guidelines (Ref: par. A39)
- f. The accountant has identified departures from the prescribed guidelines.
- g. The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

**36.** If the entity has presented all or some of the required supplementary information and the accountant did not compile or review the required supplementary information, the other-matter paragraph referred to in paragraph 35 should include the following elements: (Ref: par. A40–A41)

- a. A statement that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require 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 compile, review, or audit the required supplementary information and, accordingly, does not express an opinion or provide any assurance on the information
  - d. If some of the required supplementary information is omitted, (Ref: par. A41)
    - 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*]
- 37.** If all of the required supplementary information is omitted, the other paragraph 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

## **Change in Engagement From Audit to Review**

**38.** If the accountant, who was engaged to perform an audit engagement in accordance with generally accepted auditing standards, has been requested to change the engagement to a review engagement, the accountant should consider the following before deciding whether to agree to the change: (Ref: par. A41-A43)

- a. The reason given for the client's request, particularly the implications of a restriction on the scope of the audit engagement, whether imposed by the client or by circumstances
- b. The additional audit effort required to complete the audit engagement
- c. The estimated additional cost to complete the audit engagement

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

**40.** If the accountant concludes, based upon the accountant's professional judgment, that reasonable justification exists to change the engagement, and if the accountant complies with the standards applicable to a review engagement, the accountant should issue an appropriate review report.

**41.** The report should not include reference to

- a. the original engagement,
- b. any audit procedures that may have been performed, or
- c. scope limitations that resulted in the changed engagement.

**42.** When the accountant has been engaged to audit an entity's financial statements and has been prohibited by the client from corresponding with the entity's legal counsel, the accountant, except in rare circumstances, is precluded from issuing a review report on the financial statements.

## **Application and Other Explanatory Material**

### **Emphasis-of-Matter and Other-Matter Paragraphs in the Accountant's Review Report (Ref: par. 5-8)**

**A1.** The accountant is required to include an emphasis-of-matter or other-matter paragraph in the accountant's review report relating to the following matters:

- In accordance with paragraph 44 of the proposed SSARS *Review of Financial Statements* with respect to financial statements prepared in accordance with a special purpose framework
- In accordance with paragraph 10 of this proposed SSARS, with respect to reporting a known departure from the applicable financial reporting framework that is material to the financial statements
- In accordance with paragraph 28(c) of this proposed SSARS, with respect to reporting when management revises financial statements for a subsequently discovered fact that became known to the accountant after the report release date and the accountant's review

report on the revised financial statements differs from the accountant's review report on the original financial statements

### ***Emphasis-of-Matter Paragraphs in the Accountant's Review Report***

**A2.** In addition to the required emphasis-of-matter paragraphs listed in paragraph A1, the following are examples of circumstances when the accountant may consider it necessary to include an emphasis-of-matter paragraph:

- An uncertainty regarding the entity's ability to continue as a going concern for a reasonable period of time
- An uncertainty relating to the future outcome of unusually important litigation or regulatory action
- That the entity is a component of a larger business enterprise
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position
- Significant transactions with related parties
- Unusually important subsequent events
- Accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period

**A3.** Paragraph 5 requires that an emphasis-of-matter paragraph refer only to matters appropriately presented or disclosed in the financial statements. To include information in an emphasis-of-matter paragraph about a matter beyond what is presented or disclosed in the financial statements may raise questions about the appropriateness of such presentation or disclosure.

**A4.** The inclusion of an emphasis-of-matter paragraph in the accountant's review report does not affect the accountant's conclusion. An emphasis-of-matter paragraph is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make.

**A5.** If the heading "Emphasis-of-Matter" is not used, another heading may be considered appropriate if it adequately describes the nature of the matter being disclosed or communicated.

### ***Other-Matter Paragraphs in the Accountant's Review Report***

**A6.** If not properly presented or disclosed in the financial statements, a matter cannot be included in an emphasis-of-matter paragraph. However, if the matter is relevant to users' understanding of the review, the accountant's responsibilities, or the accountant's review report, the matter can be disclosed in an other-matter paragraph.

**A7.** An entity may prepare one set of financial statements in accordance with a general purpose framework (for example, accounting principles generally accepted in the United States of America) and another set of financial statements in accordance with another general purpose framework (for example, International Financial Reporting Standards promulgated by the

International Accounting Standards Board) and may engage the accountant to review both sets of financial statements. If the accountant has determined that the frameworks are acceptable in the respective circumstances, the accountant may include an other-matter paragraph in the accountant's review report referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the accountant has issued a review report on those financial statements.

**A8.** The content of an other-matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An other-matter paragraph does not include information that the accountant is prohibited from providing by law, regulation, or other professional standards (for example, ethical standards relating to the confidentiality of information). An other-matter paragraph does not include information that is required to be provided by management.

***Communication With Management (Ref: par. 8)***

**A9.** The accountant's communication with management, as described in paragraph 8, enables management to be made aware of the nature of any specific matters that the accountant intends to highlight in the accountant's review report and provides them with an opportunity to obtain further clarification from the accountant, when necessary. When the inclusion of an other-matter paragraph on a particular matter in the accountant's review report recurs on each successive engagement, the accountant may determine that it is unnecessary to repeat the communication on each engagement.

**A10.** In addition to management, the accountant may also consider it appropriate to communicate with those charged with governance regarding the expectation of including an other-matter paragraph in the accountant's review report and the proposed wording of this paragraph.

**Known Departures From the Applicable Financial Reporting Framework (Ref: par. 10 and 12)**

**A11.** Examples of headings that an accountant may use to disclose departures from an applicable financial reporting framework in the accountant's review report include the following:

- Known Departures From Accounting Principles Generally Accepted in the United States of America
- Known Departures From International Financial Reporting Standards as Promulgated by the International Accounting Standards Board
- Known Departures From the Cash Basis of Accounting
- Known Departures From the Tax Basis of Accounting

**A12.** Prior to withdrawing from a review engagement in those circumstances when the accountant believes that modification of the standard report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant may wish to consult with legal counsel.

**A13.** The exhibit, “Illustration of Accountant’s Review Reports on Financial Statements,” contains an illustrative example of an accountant’s review report that discloses a departure from the applicable financial reporting framework.

**Alert That Restricts the Use of the Accountant’s Review Report (Ref: par. 14)**

**A14.** The need for an alert that restricts the use of the accountant’s review report arises from the potential for the accountant’s review report to be misunderstood if taken out of the context in which the accountant’s review report is intended to be used.

**A15.** Accountant’s review reports on financial statements prepared in accordance with a general purpose framework ordinarily do not include an alert that restricts their use. A general purpose framework is a financial reporting framework designed to meet the common financial information needs of a wide range of users. However, nothing in SSARs precludes an accountant from including an alert in any accountant’s review report. For example, financial statements prepared specifically for use in an acquisition, may be prepared in accordance with a general purpose framework because the parties involved in the transaction have agreed that such general purpose financial statements are appropriate for their purposes. Nevertheless, when the terms of the engagement to review those financial statements require the accountant to supply the accountant’s review report only to specified parties, the accountant may consider it necessary in the circumstances to include an other-matter paragraph in the accountant’s review report that restricts the use of the accountant’s review report.

***Distribution of the Accountant’s Review Report (Ref: par. 14)***

**A16.** An accountant is not responsible for controlling, and cannot control, distribution of the accountant’s review report after its release. The alert that restricts the use of the accountant’s review report is designed to avoid misunderstandings related to the use of the accountant’s review report, particularly if the accountant’s review report is taken out of the context in which the accountant’s review report is intended to be used. An accountant may consider informing the entity or other specified parties that the accountant’s review report is not intended for distribution to parties other than those specified in the accountant’s review report. The accountant may, in connection with establishing the terms of the engagement, reach an understanding with the entity that the intended use of the accountant’s review report will be restricted and may obtain the entity’s agreement that the entity and specified parties will not distribute such accountant’s review report to parties other than those identified therein.

***Illustrative Alert Language (Ref: par. 15)***

**A17.** The alert that restricts the use of the accountant’s review report may list the specified parties or refer to the specified parties listed elsewhere in the accountant’s review report. The following illustrates language that includes the elements required by paragraph 15.

This report is intended solely for the information and use of [list or refer to the specified parties] and is not intended to be and should not be used by anyone other than these specified parties.

***Adding Other Specified Parties (Ref: par. 16)***

**A18.** When the accountant is requested to add other parties as specified parties, the accountant may agree to add other parties as specified parties based on the accountant's consideration of factors such as the identity of the other parties and the intended use of the accountant's review report.

### **The Accountant's Consideration of an Entity's Ability to Continue as a Going Concern**

#### ***Consideration of Conditions or Events That Indicate That There Could Be an Uncertainty About the Entity's Ability to Continue as a Going Concern (Ref: par. 18)***

**A19.** In performing review procedures, the accountant may identify information about certain conditions or events that, when considered in the aggregate, indicate there could be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time. The significance of such conditions and events will depend on the circumstances, and some may have significance only when viewed in conjunction with others. The following are examples of such conditions and events:

- *Negative trends.* For example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, adverse key financial ratios
- *Other indications of possible financial difficulties.* For example, default on loan or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, restructuring of debt, noncompliance with statutory capital requirements, need to seek new sources or methods of financing or to dispose of substantial assets
- *Internal matters.* For example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, need to significantly revise operations
- *External matters that have occurred.* For example, legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; uninsured or underinsured catastrophe such as a drought, earthquake, or flood

#### ***Consideration of Financial Statement Effects (Ref: par. 20)***

**A20.** In considering the adequacy of disclosure some of the information that might be disclosed includes the following:

- Principal conditions and events giving rise to the assessment of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time
- The possible effects of such conditions and events
- Management's evaluation of the significance of those conditions and events and any mitigating factors
- Possible discontinuance of operations
- Management's plans (including relevant prospective financial information)

- Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities

### ***Consideration of the Effects on the Accountant's Review Report (Ref: par. 21)***

**A21.** If, after considering the evidence or information from paragraph 18 and management's consideration of the possible effects of the going concern uncertainty on the financial statements from paragraph 19, the accountant concludes that management has adequately disclosed the issue, the accountant may include an emphasis-of-matter paragraph in the accountant's review report pursuant to paragraphs 5–6. The accountant is not required to include an emphasis-of-matter paragraph with respect to a going concern uncertainty.

**A22.** The following is an illustration of an emphasis-of-matter paragraph the accountant may include in the accountant's review report when the accountant concludes that management has adequately disclosed an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time and determines to include an emphasis-of-matter paragraph with respect to the going concern uncertainty:

#### ***Emphasis of Matter***

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises an uncertainty about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**A23.** Examples of inappropriate wording in an emphasis-of-matter paragraph when the accountant concludes that management has adequately disclosed an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time and determines to include an emphasis-of-matter paragraph with respect to the going concern uncertainty include the following:

- If the Company continues to suffer recurring losses from operations and continues to have a net capital deficiency, there may be an uncertainty about its ability to continue as a going concern.
- The Company has been unable to renegotiate its expiring credit agreements. Unless the Company is able to obtain financial support, there is an uncertainty about its ability to continue as a going concern.

### **Subsequent Events and Subsequently Discovered Facts**

#### ***Subsequent Events (Ref: par. 22)***

**A24.** Evidence or information that subsequent events that require adjustment of, or disclosure in, the financial statement may come to the accountant's attention in the following ways:

- a. During the performance of review procedures

- b. Subsequent to the date of the accountant's review report but prior to the release of the report

***Subsequently Discovered Facts That Became Known to the Accountant After the Report Release Date (Ref: par. 27)***

**A25.** New information may come to the accountant's attention that, had such information been known to the accountant at the date of the accountant's review report, may have caused the accountant to revise the accountant's review report. When such information becomes known to the accountant after the report release date, the requirements in paragraphs 27–30 apply, even if the accountant has withdrawn or been discharged.

**A26.** Because of the variety of conditions that might be encountered, the specific procedures or actions to be taken in a particular case may vary somewhat in light of the circumstances. For example, in determining whether the financial statements need revision, as required by paragraph 27(b), the accountant may consider, in addition to the requirements of the applicable financial reporting framework, whether the accountant believes persons are currently using or likely to use the financial statements who would attach importance to the subsequently discovered facts. Consideration may be given, among other things, to the issuance of reviewed or audited financial statements for a subsequent period, the time elapsed since the financial statements were issued and the date of the accountant's review report released, and any legal implications.

***Revision of Financial Statements by Management (Ref: par. 28[b] and 29[b])***

**A27.** The steps taken by management to ensure that anyone in receipt of the reviewed financial statements is informed of the situation, including that the reviewed financial statements are not to be used, depend on the circumstances. Management's steps may include the following:

- Notify anyone who is known to be using or who is likely to use the financial statements and the accountant's review report that they are not to be used and that revised financial statements, together with a new accountant's review report, will be issued. This may be necessary when the issuance of revised financial statements and a new accountant's review report is not imminent.
- Issue, as soon as practicable, revised financial statements with appropriate disclosure of the matter.
- Issue the subsequent period's financial statements with appropriate disclosure of the matter. This may be appropriate when issuance of the subsequent period's reviewed or audited financial statements is imminent.

***Accountant Action to Seek to Prevent Use of the Accountant's Review Report (Ref: par. 30)***

**A28.** If management made the reviewed financial statements available to third parties despite the accountant's notification not to do so, or if the accountant believes that management or those charged with governance have failed to take the necessary steps to prevent use of the accountant's review report on the previously issued reviewed financial statements despite the accountant's prior notification that the accountant will take action to seek to prevent such use,

the accountant's course of action depends upon the accountant's legal and ethical rights and obligations. Consequently, the accountant may consider it appropriate to seek legal advice.

**A29.** The actions that the accountant may take to seek to prevent use of the accountant's review report may depend upon the degree of certainty of the accountant's knowledge that persons or entities exist who are currently using or who will use the reviewed financial statements, and who would attach importance to the information, and the accountant's ability as a practical matter to communicate with them. In addition to seeking legal advice, the accountant may consider taking the following steps to the extent applicable:

- Notify management and those charged with governance that the accountant's review report is not to be used.
- Notify regulatory agencies having jurisdiction over the entity that the accountant's review report is not to be used, including a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.
- Notify anyone known to the accountant to be using the financial statements that the accountant's review report is not to be used. In some instances, it will not be practicable for the accountant to give appropriate individual notification to stockholders or investors at large whose identities are unknown to the accountant; notification to a regulatory agency having jurisdiction over the entity will usually be the only practical means for the accountant to provide appropriate disclosure, together with a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.

**A30.** Depending on the circumstances, if the accountant is able to determine that the financial statements need revision, the accountant's notification to anyone in receipt of the reviewed financial statements may, if permitted by law, regulation, and relevant ethical requirements,

- include a description of the nature of the matter and of its effect on the financial statements, avoiding comments concerning the conduct or motives of any person.
- describe the effect that the matter would have had on the accountant's review report if it had been known to the accountant at the date of the report and had not been reflected in the financial statements.

**A31.** If the accountant was not able to determine whether the financial statements need revision, the notification to anyone in receipt of the reviewed financial statements may indicate that information became known to the accountant and that, if the information is true, the accountant believes that the accountant's review report is not to be used. The specific matter may not be permitted by law, regulation, and ethical requirement to be detailed in the notification.

### **Reference to the Work of Other Accountants in an Accountant's Review Report (Ref: par. 31)**

**A32.** The accountant of the reporting entity may make reference to any, or all, other accountants who audited or reviewed significant components. For example, if a significant component is audited or reviewed by an other accountant and a second significant component is audited or reviewed by a different other accountant, the accountant of the reporting entity may decide to make reference to one of the other accountants, both of the other accountants, or

neither. The decision is solely at the discretion and judgment of the accountant of the reporting entity.

**A33.** The disclosure of the magnitude of the portion of the financial statements audited or reviewed by other accountants may be achieved by stating the dollar amounts or percentages of total assets, total revenues, other appropriate criteria, or a combination of these, whichever most clearly describes the portion of the financial statements audited or reviewed by other accountants. When two or more other accountants participate in the audit or review, the dollar amounts or the percentages covered by the other accountants may be stated in the aggregate.

**A34.** The exhibit contains an example of appropriate reporting in the accountant's review report when reference is made to the audit or review of significant components, such as consolidated and unconsolidated subsidiaries and investees, by other accountants.

### **Information Presented for Supplementary Analysis Purposes That Accompanies Reviewed Financial Statements (Ref: par. 33–37)**

**A35.** Although not required to compile or review information presented for supplementary analysis purposes that accompany reviewed financial statements, nothing precludes the accountant from compiling or reviewing such information if engaged to do so.

**A36.** The following is an example of how an accountant may word an other-matter paragraph addressing information presented for supplementary analysis purposes when the accountant has reviewed both the financial statements and the information presented for supplementary analysis purposes:

#### ***Other Matter***

The [*identify the information presented for supplementary analysis purposes*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been reviewed from information that is the representation of management. I (We) have not audited the information and, accordingly, do not express an opinion on such information.

The following is an example of how an accountant may word an other-matter paragraph addressing information presented for supplementary analysis purposes when the accountant has reviewed the financial statements but has not compiled, reviewed, or audited the information presented for supplementary analysis purposes:

#### ***Other Matter***

The [*identify the information presented for supplementary analysis purposes*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information was not compiled, reviewed, or audited by me (us) and, accordingly, I (we) do not express an opinion or provide any assurance on it.

**A37.** Information presented for supplementary analysis purposes that the accountant has compiled or reviewed may become unattached from the accountant's review report. To minimize the possibility that a user of the compiled or reviewed information may infer, through the accountant's association with the compiled or reviewed information, an unintended level of

reliance on the compiled or reviewed information, the accountant may consider including a reference to the accountant's review report on each page of the compiled or reviewed information. An example of a reference to the accountant's review report included on each page of the compiled or reviewed other information is "See independent accountant's review report."

### ***Required Supplementary Information***

**A38.** Examples of required supplementary information that may accompany reviewed financial statements include the following:

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

**A39.** Prescribed guidelines are the authoritative guidelines established by the designated accounting standard setter for the methods of measurement and presentation of the required supplementary information.

**A40.** Because the required supplementary information accompanies the basic financial statements, the accountant's review 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.

### **Change in Engagement From Audit to Review (Ref: par. 38)**

**A41.** A request to change the engagement may result from a change in circumstances affecting the entity's requirement for an audit engagement; a misunderstanding regarding the nature of an audit or review engagement; or a restriction on the scope of the audit engagement, whether imposed by the client or caused by circumstances.

**A42.** A change in circumstances that affects the entity's requirement for an audit engagement or a misunderstanding concerning the nature of an audit or review engagement would ordinarily be considered a reasonable basis for requesting a change in the engagement.

**A43.** The implications of a restriction on the scope of the audit engagement include the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory.

A44.

## **Exhibit—Illustration of Accountant’s Review Reports on Financial Statements**

This exhibit is an interpretive publication, pursuant to paragraph .18 of AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*). Interpretive publications are recommendations on the application of Statements on Standards for Accounting and Review Services (SSARSs) in specific circumstances. An interpretive publication is issued under the authority of the Accounting and Review Services Committee (ARSC) after all ARSC members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with the SSARSs.

**Illustration 1**—An Accountant’s Review Report on Comparative Financial Statements Disclosing a Departure From Accounting Principles Generally Accepted in the United States of America

**Illustration 2**—An Accountant’s Review Report on Comparative Financial Statements in Which the Accountant Makes Reference to the Work of Other Accountants Who Were Engaged to Review the Financial Statements of a Significant Component

## **Illustration 1—An Accountant’s Review Report on Comparative Financial Statements Disclosing a Departure From Accounting Principles Generally Accepted in the United States of America**

Circumstances include the following:

- Review of a complete set of comparative financial statements.
- The financial statements contain a departure from accounting principles generally accepted in the United States of America.

### **Independent Accountant’s Review Report**

*[Appropriate Addressee]*

I (we) have reviewed the accompanying balance sheets of XYZ Company 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. A review includes primarily applying analytical procedures to management’s (owners’) financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

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

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

#### ***Accountant’s Responsibility***

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

#### ***Accountant’s Conclusion***

Based on my (our) review, except for the issue noted in the Known Departure From Accounting Principles Generally Accepted in the United States of America paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

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

As disclosed in note X to these financial statements, accounting principles generally accepted in the United States require that inventory cost consist of material, labor, and overhead.

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

*or*

As disclosed in note X to these financial statements, the company has adopted [*description of newly adopted method*], whereas it previously used [*description of previous method*]. Although the [*description of newly adopted method*] is in accordance with accounting principles as generally accepted in the United States, the company does not appear to have reasonable justification for making a change as required by Financial Accounting Standards Board *Accounting Standards Codification 250, Accounting Changes and Error Corrections*.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's review report*]

**Illustration 2: An Accountant’s Review Report on Comparative Consolidated Financial Statements in Which the Accountant Makes Reference to the Work of Other Accountants Who Were Engaged to Review the Financial Statements of a Significant Component**

Circumstances include the following:

- Review of a complete set of comparative consolidated financial statements.
- The financial statements of B Company, a wholly-owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X2 and 20X1, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended were reviewed by other accountants and the accountant has decided to make reference to the work of other accountant’s in the accountant’s review report.

**Independent Accountant’s Review Report**

*[Appropriate Addressee]*

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

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

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

***Accountant’s Responsibility***

My (our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We have not reviewed the financial statements of B Company, a wholly-owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X2 and 20X1, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. These statements were reviewed by other accountants, whose report has been furnished to me (us), and our conclusion, insofar as it relates to the amounts included for B Company, is based solely on the report of the other accountants.

SSARSs require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for our report.

***Accountant's Conclusion***

Based on my (our) review, and the report of other accountants, I am (we are) not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with 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 review report]*