

Agenda Item 1A



Amendments to AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* (AICPA, *Professional Standards*)

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
<p>1. AR-C section 60, <i>General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services</i>, (SSARSs) was issued by the Accounting and Review Services Committee (ARSC) and codified into AR-C sections. This amendment</p> <ul style="list-style-type: none">• revises AR-C section 60 so that it applies to SSARSs engagements performed on subject matter other than historical financial statements.• revises paragraph .06 to include definitions of <i>financial statements</i> and <i>prospective financial information</i> and to harmonize the definition of <i>engagement team</i> to that included in the clarified auditing standards.• revises the definition of <i>interpretative publications</i> in paragraph .06 of AR-C section 60 to reflect the	

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<p>revised title of the AICPA guide providing authoritative guidance on SSARSs engagements.</p> <ul style="list-style-type: none"> • revises the definition of <i>other preparation, compilation, and review publications</i> so that the definition is not specific as to the title of the AICPA’s annual alert addressing engagements performed in accordance with SSARSs. • revises paragraph .25c(ii) so that the accountant is not required to obtain the agreement of management that it acknowledges and understands its responsibility 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, if the accountant determines to accept responsibility for such internal control. 	
<p>2. New language is shown in boldface italics; deleted language is shown by strikethrough.</p>	
<p>Introduction</p>	
<p>Scope of This Section</p>	<p><i>Scope of This Section (Ref: par. 04)</i></p>
<p>.01 This section provides general principles for engagements performed in accordance with Statements on Standards for</p>	

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<p>Accounting and Review Services (SSARSs) issued by the Accounting and Review Services Committee (ARSC) and codified into AR-C sections. This section also sets forth the meaning of certain terms used in SSARSs when describing the professional requirements imposed on accountants performing a review, compilation, or an engagement to prepare financial statements <i>an engagement in accordance with SSARSs</i>.</p>	
<p>.03 SSARSs are written in the context of a review <i>preparation</i>, compilation, or an <i>review</i> engagement to prepare financial statements performed by an accountant. They are to be adapted as necessary in the circumstances when applied to reviews, compilations, and engagements to prepare other historical or prospective financial information. SSARSs do not address the responsibilities of the accountant that may exist in legislation, regulation, or otherwise. Such responsibilities may differ from those established in SSARSs. Accordingly, although the accountant may find aspects of SSARSs helpful in such circumstances, it is the responsibility of the accountant to ensure compliance with all relevant legal, regulatory, or professional obligations.</p>	
<p>.0704 The financial statements subject to the engagement performed in accordance with SSARSs are those of the entity. SSARSs do not impose responsibilities on management and do not override laws and regulations that govern their responsibilities. (Ref: par. .A1-.A10A8)</p>	<p><i>.A1 If the accountant is engaged to perform an engagement in accordance with SSARSs on financial information other than historical financial statements (for example, the preparation or compilation of prospective financial information or the compilation of pro forma financial information), references</i></p>

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	<p><i>in this section to financial statements are to be taken as references to such other financial information.</i></p> <p>.A1— The preconditions for the performance of an engagement to prepare financial statements are included in paragraph .25 of this section.</p> <p>A2. The preconditions for the performance of a compilation engagement are included in paragraph .25 of this section and paragraph .08 of section 80, <i>Compilation Engagements</i>.</p> <p>.A3— The preconditions for the performance of a review engagement are included in paragraph .25 of this section and paragraphs .08–.09 of section 90, <i>Review of Financial Statements</i>.</p>
Definitions	
<p>.0607 For purposes of SSARSs, the following terms have the meanings attributed as follows:</p> <p>Engagement partner.^{fn2} The partner or other person in the firm who is responsible for the engagement and its performance and for the report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body.</p> <p>Engagement team. All accountants <i>partners</i> and staff performing the engagement and any individuals engaged by the firm <i>or a network firm</i> who perform procedures on the engagement.</p>	

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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.

Firm. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in the practice of public accounting.

Interpretive publications. Interpretations of SSARSs; exhibits to SSARSs; ~~the AICPA Guide *Compilation and Review Engagements*~~ **Preparation, Compilation, and Review Engagements**,^{fn2} guidance on *preparation*, ~~reviews~~, compilations, and *review* engagements to ~~prepare financial statements~~ included in AICPA Audit and Accounting Guides; and AICPA Statements of Position, to the extent that those statements are applicable to such engagements.

Other preparation, compilation and review publications. Publications other than interpretive publications. These include AICPA ~~accounting~~

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preparation, compilation, and review publications not defined as interpretive publications; the AICPA's annual alert *addressing engagements performed in accordance with SSARSs* ~~*Developments in Review, Compilation, and Financial Statement Preparation Engagements*~~; articles addressing *preparation, compilation, and* reviews, ~~compilations, and~~ engagements to prepare financial statements in the *Journal of Accountancy* and other professional journals; continuing professional education programs and other instruction materials, textbooks, guide books, programs for *preparation, compilation, and* reviews, ~~compilations, and~~ engagements to prepare financial statements, and checklists; and other publications addressing *preparation, compilation, and* reviews, ~~compilations, and~~ engagements to prepare financial statements from state CPA societies, other organizations, and individuals.

Professional judgment. The application of relevant training, knowledge, and experience, within the context provided by SSARSs and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the *preparation, compilation, or* review, ~~compilation, or~~ engagement to prepare financial statements.

Prospective financial information. Any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts.

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<p>^{fn 2} This term is also defined in paragraph .13 of QC section 10, <i>A Firm's System of Quality Control</i> (AICPA, <i>Professional Standards</i>) for purposes of the Statements on Quality Control Standards. Refer to QC section 10 for specific language.</p> <p>^{fn2} The title of the 2015 guide will be <i>Review, Compilation, and Financial Statement Preparation Engagements</i>.</p>	
<p>Requirements</p>	
<p>Professional Judgment</p>	<p>Professional Judgment (Ref: par. 09)</p>
<p>.09 The accountant should exercise professional judgment in the performance of an engagement in accordance with SSARSs. (Ref: par. .A15A13-.A19A17)</p>	<p>.A19A17 Professional judgment needs to be exercised throughout the engagement performed in accordance with SSARSs. It also needs to be appropriately documented in accordance with the requirements of <i>the applicable AR-C</i> section 70, <i>Preparation of Financial Statements</i>; section 80, <i>Compilation Engagements</i>; or section 90, <i>Review of Financial Statements</i> as applicable. 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, in a review engagement, the evidence obtained.</p>
<p><i>Complying With AR-C Sections Relevant to the Engagement</i></p>	<p><i>Complying With AR-C Sections Relevant to the Engagement</i> (Ref: par. .11-.12)</p>
<p>.11 The accountant should comply with all AR-C sections relevant to the engagement. An AR-C section is relevant to the engagement when the AR-C section is in effect, and the circumstances addressed by the AR-C section exist. (Ref: par. .A20A19-.A25A24)</p>	<p>.A24A23 The accountant may also conduct the compilation or review <i>of financial statements</i> in accordance with both SSARSs and</p> <ul style="list-style-type: none"> • International Standard on Related Services 4410 (Revised), <i>Compilation Engagements</i>,

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	<ul style="list-style-type: none"> • International Standard on Review Engagements 2400 (Revised), <i>Engagements to Review Historical Financial Statements</i>, or • compilation or review standards of a specific jurisdiction or country. <p>In such cases, in addition to complying with each of the AR-C sections relevant to the engagement, it may be necessary for the accountant to perform additional compilation or review procedures in order to comply with the other compilation or review standards.</p>
<i>Complying With Relevant Requirements</i>	<i>Complying With Relevant Requirements</i> (Ref: par. .14)
<p>.14 Subject to paragraph .16, the accountant should comply with each requirement of the relevant AR-C section unless, in the circumstances of the engagement, the requirement is not relevant because it is conditional, and the condition does not exist. (Ref: par. .A31A30)</p>	<p>.A31A30 Within a relevant AR-C section, there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply, and the condition exists. In some cases, a requirement may be expressed as being conditional on applicable law or regulation. For example, the accountant may be required to withdraw from the review, compilation, or engagement to prepare financial statements when withdrawal is possible under applicable law or regulation, or the accountant may be required to perform a certain action, unless prohibited by law or regulation.</p>
<i>Other Preparation, Compilation and Review Publications</i>	<i>Other Preparation, Compilation and Review Publications</i> (Ref: par. .18)

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<p>.18 In applying the guidance included in an other preparation, compilation and review publication, the accountant should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the engagement. (Ref: par. .A34-.A36.A37-.A39)</p>	<p>.A36^{A39} When determining whether an other preparation, compilation and review publication that has not been reviewed by the AICPA Audit and Attest Standards staff is appropriate to the circumstances of the engagement, the accountant may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying SSARSs and the degree to which the issuer or author is recognized as an authority in matters addressing <i>preparation, compilation, and reviews, compilations, and engagements to prepare financial statements</i>. Other preparation, compilation and review publications that have not been reviewed by the AICPA Audit and Attest Standards staff that contradict an other preparation, compilation and review publication that has been reviewed by the AICPA Audit and Attest Standards staff is inappropriate.</p>
<p>Acceptance and Continuance of Client Relationships and Engagements</p>	<p>Acceptance and Continuance of Client Relationships and Engagements (Ref: par. .24-.25)</p>
<p>.25 As a <i>precondition</i> for accepting an engagement to be performed in accordance with SSARSs, the accountant should</p> <p>a. determine whether preliminary knowledge of the engagement circumstances indicate that ethical requirements regarding professional competence will be satisfied.</p>	

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- b. determine whether the financial reporting framework selected by management to be applied in the preparation of the financial statements is acceptable. (Ref: par. .A47)
- c. obtain the agreement of management that it acknowledges and understands its responsibility (Ref: par. .A48)
 - i. for the selection of the financial reporting framework to be applied in the preparation of financial statements.
 - ii. 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, *unless the accountant determines to accept responsibility for such internal control.*
 - iii. for preventing and detecting fraud.
 - iv. for ensuring that the entity complies with laws and regulations applicable to its activities.
 - v. for the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the preparation of financial statements.
 - vi. to provide the accountant with (Ref: par. .A4950)
 - (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements,

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<p>such as records, documentation, and other matters.</p> <p>(2) additional information that the accountant may request from management for the purpose of the engagement.</p> <p>(3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.</p>	

Amendment to AR-C section 70, *Preparation of Financial Statements* (AICPA, Professional Standards)

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<p>1. AR-C section 70 applies when an accountant in public practice is engaged to prepare financial statements. This amendment</p> <ul style="list-style-type: none"> • revises paragraphs .01 to clarify (a) when the section applies, (b) when the section may be applied, and (c) when the section does not apply. • revises paragraphs .10 and .A7 to avoid misunderstandings as to the nature of an engagement letter and to make clear that an oral understanding of the terms of the engagement is insufficient. • revises paragraph .14 to state that when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the 	

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financial statements that, in addition to issuing a disclaimer that makes clear that no assurance is provided on the financial statements or performing a compilation engagement, the accountant may perform a review or an audit of the financial statements. An application paragraph is also added that states that if the subject matter of the engagement is prospective financial information, the accountant may perform an examination or an agreed-upon procedures engagement with respect to the prospective financial information. The revised paragraph also makes clear that the accountant may withdraw from the engagement.

- includes a requirement that states that because the summary of significant assumptions is essential to the users' understanding of prospective financial information, the accountant should not prepare prospective financial information that excludes either (a) disclosure of the summary of significant assumptions or (b) a description of the limitations on the usefulness of the presentation. Also, the accountant should not prepare a financial projection that excludes an identification of the hypothetical assumptions.
- deletes paragraph .22 regarding documentation of the justification for a departure from a relevant presumptively mandatory requirement. The

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documentation requirement is not included in AR-C sections 80 or 90 and is included in the requirement, as stated in paragraph .21, for the accountant to prepare documentation in connection with each preparation engagement in sufficient detail to provide a clear understanding of the work performed.	
2. New language is shown in boldface italics; deleted language is shown by strikethrough.	
AR-C Section 70 <i>Preparation of Financial Statements</i>	
Introduction	
Scope of This Section	Scope of This Section (Ref: par. .01–.02)
.01 This section applies when an accountant in public practice is engaged to prepare <i>historical</i> financial statements <i>or prospective financial information</i> . (Ref: par. .A1-.A2) <i>This section may also be applied, adapted as appropriate in the circumstances, to the preparation of other historical financial information. (Ref: par. .A3)</i>	.A1 <i>If the accountant is engaged to prepare financial information other than historical financial statements (for example, prospective financial information or pro forma financial information), references in this section to financial statements are to be taken as a reference to such other financial information.</i> A2. <i>AICPA Guide Prospective Financial Information (the guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, “Preparation Guidelines,” chapter 7, “Reasonably Objective Basis,” chapter 8, “Presentation Guidelines,” and chapter 9,</i>

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<p>This section does not apply when an accountant prepares <i>historical</i> financial statements <i>or prospective financial information</i></p> <ul style="list-style-type: none"> • and is engaged to perform an audit, review, or compilation of those financial statements, • solely for submission to taxing authorities, • for inclusion in written personal financial plans prepared by the accountant, • in conjunction with litigation services that involve pending or potential legal or regulatory proceedings, or • in conjunction with business valuation services. <p>This section may also be applied, adapted as necessary in the circumstances, to the preparation of other historical or prospective financial information.¹ (Ref: par. A1)</p> <p>¹The Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants with respect to compilation engagements on pro forma or prospective financial information.</p>	<p><i>“Illustrative Prospective Financial Statements” of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information. The guide provides suitable criteria for the preparation and presentation of prospective financial information. The accountant is not prohibited from preparing prospective financial information prepared and presented in accordance with other suitable criteria.</i></p> <p>A1.A3: Other historical or prospective financial information to which this section may be applied includes the following:</p> <ul style="list-style-type: none"> • Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes • Supplementary information • Required supplementary information • Pro forma financial information • Prospective financial information, including budgets, forecasts, or projections
Requirements	

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<p>Agreement on Engagement Terms</p>	<p>Agreement on Engagement Terms (Ref: par. .10–.11)</p>
<p>.10 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement <i>between the parties</i> and should include the following: (Ref: par. .A5A7–.A9A11)</p> <ul style="list-style-type: none"> a. The objective of the engagement b. The responsibilities of management set forth in paragraph .25c of section 60 c. The agreement of management that each page of the financial statements will include a statement indicating that no assurance is provided on the financial statements or the accountant will be required to issue a disclaimer that makes clear that no assurance is provided on the financial statements. (Ref: par. .A11) d. The responsibilities of the accountant e. The limitations of the engagement to prepare financial statements f. Identification of the applicable financial reporting framework for the preparation of financial statements g. Whether the financial statements are to contain a known departure or departures from the applicable financial reporting framework (including inadequate 	<p>.A7A9 A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for engagements to prepare financial statements is required by paragraph .10 to be in a documented form, and, accordingly, a verbal <i>an oral</i> understanding is insufficient. An engagement letter is the most common, and usually the most convenient, method for documenting the understanding with management regarding the services to be performed for engagements to prepare financial statements.</p>

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disclosure) or omit substantially all disclosures required by the applicable financial reporting framework.	
Preparing the Financial Statements	Preparing the Financial Statements (Ref: par. .10, .14–.16, and .18)
<p>.14 The accountant should ensure that a statement is included on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the financial statements. If the accountant is unable to include a statement on each page of the financial statements, the accountant should (Ref: par. .A11A14)</p> <p><i>a.</i> issue either a disclaimer that makes clear that no assurance is provided on the financial statements, or (Ref: par. .A12A14)</p> <p><i>b.</i> perform <i>an audit, a review, or compilation with respect to the financial statements, or engagement in accordance with section 80, Compilation Engagements.</i> (Ref: par. <i>.A15</i>)</p> <p><i>c. withdraw from the engagement.</i></p>	<p><i>.A15 If the subject matter of the engagement is prospective financial information, the accountant may perform an examination or an agreed-upon procedures engagement with respect to the prospective financial information.</i></p>
Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework	
21. <i>The summary of significant assumptions is essential to the user’s understanding of prospective financial information. Accordingly, the accountant should not</i>	

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<p><i>prepare prospective financial information that excludes any of the following:</i></p> <ul style="list-style-type: none"> <i>a. Disclosure of the summary of significant assumptions</i> <i>b. A description of the limitations on the usefulness of the presentation, or</i> <i>c. An identification of the hypothetical assumptions if the prospective financial information is a financial projection.</i> 	
Documentation in a Preparation Engagement	
<p>.22 If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.</p>	

Amendment to AR-C section 80, *Compilation Engagements* (AICPA, *Professional Standards*)

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<p>1. AR-C section 80 applies when an accountant is engaged to perform a compilation engagement. This amendment</p>	

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- revises the title of AR-C section 80 so that it addresses the compilation of financial statements.
- revises paragraph .01 to clarify when the section applies.
- revises paragraph .A1 to delete the compilation of pro forma as an example of other financial information that may be the subject of a compilation engagement in accordance with AR-C section 80.
- revises paragraph .05 to harmonize the definition of *misstatement* with that included in the clarified auditing standards.
- revises paragraphs .10 and .A9 to avoid misunderstandings as to the nature of an engagement letter and to make clear that an oral understanding of the terms of the engagement is insufficient.
- revises paragraphs .27-.28 to clarify that the accountant is required to disclose known departures from the applicable financial reporting framework in the accountant's compilation report and that when the accountant becomes aware of a departure from the applicable financial reporting framework that is material to the financial statements and the financial statements are not revised, the accountant is required

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<p>to consider whether modification of the standard report is adequate to disclose the departure.</p> <ul style="list-style-type: none"> revises paragraphs .32-.36 to refer to the paragraph that is included in the accountant’s compilation report when supplementary information or required supplementary information accompanies financial statements and the accountant’s compilation report thereon as a <i>separate paragraph</i> as <i>other-matter</i> paragraph is not defined in the compilation literature. 	
<p>2. New language is shown in boldface italics; deleted language is shown by strikethrough.</p>	
<p>AR-C Section 80</p> <p><i>Compilation Engagements</i> of Financial Statements</p>	
<p>.01 This section applies when the accountant is engaged to perform a compilation engagement <i>of historical financial statements or prospective financial information</i>. This section may also be applied, adapted as necessary in the circumstances, to other historical or prospective financial information.¹ (Ref: par. .A1-.A3)</p> <p>¹The Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants with respect to compilation engagements on pro forma or prospective financial information.</p>	<p>.A1 <i>If the accountant is engaged to perform a compilation on financial information other than historical financial statements (for example, prospective financial information), references in this section to financial statements are to be taken as a reference to such other financial information.</i></p> <p>A2. <i>AICPA Guide Prospective Financial Information (the guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, “Preparation Guidelines,” chapter 7, “Reasonably Objective Basis,” chapter 8, “Presentation Guidelines,” and chapter 9,</i></p>

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	<p><i>“Illustrative Prospective Financial Statements” of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information. The guide provides suitable criteria for the preparation and presentation of prospective financial information. The accountant is not prohibited from performing a compilation on prospective financial information prepared and presented in accordance with other suitable criteria.</i></p> <p>.A1A3 Other historical or prospective financial information that may be the subject of a compilation engagement <i>to which this section may be applied</i> includes the following:</p> <ul style="list-style-type: none"> • Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes • Supplementary information • Required supplementary information • Pro forma financial information • Prospective financial information, including budgets, forecasts, or projections
<p>Definitions</p>	
<p>.05 For purposes of SSARSs, the following terms have the meanings attributed as follows:</p>	

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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.

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

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, accounting principles generally accepted in the United States of America [U.S. GAAP], International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework.

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

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

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

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

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

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measurement and presentation of the information have been established.

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

- a.* **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- b.* **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.
- c.* **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission). (Ref: par. ~~A2A4~~)
- d.* **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.
- e.* **Other basis.** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

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<p>The cash-basis, tax-basis, regulatory-basis, and other-basis of accounting are commonly referred to as <i>other comprehensive bases of accounting</i> (OCBOA).</p> <p>Supplementary information. Information presented outside the basic financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework.</p> <p>Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel (for example, executive members of a governance board or an owner-manager).</p>	
<p>Agreement on Engagement Terms</p>	<p>Agreement on Engagement Terms (Ref: par. .10-.11 and .38)</p>
<p>.10 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement <i>between the parties</i> and should include the following: (Ref: par. .A6A8-.A11A13)</p>	<p>.A9A11 A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for compilation engagements is required by paragraph .10 to be in a documented form, and, accordingly, a verbal <i>an oral</i> understanding is insufficient. An engagement letter is the most common and usually the most convenient method for</p>

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<ul style="list-style-type: none"> a. The objectives of the engagement b. The responsibilities of management set forth in paragraph .25c of section 60 and paragraph .08 of this section c. The responsibilities of the accountant d. The limitations of the compilation engagement e. Identification of the applicable financial reporting framework for the preparation of the financial statements f. The expected form and content of the accountant's compilation report and a statement that there may be circumstances in which the report may differ from its expected form and content 	<p>documenting the understanding with management regarding the services to be performed for compilation engagements.</p>
<p>Reporting Known Departures From the Applicable Financial Reporting Framework</p>	
<p>.27 When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and the financial statements are not revised, or the departure is not disclosed in the notes to the financial statements; the accountant should <i>consider whether modify modification of the compilation standard report is adequate</i> to disclose the departure. (Ref: par. A34A36)</p>	
<p>.28 <i>If the accountant concludes that modification of the standard report is adequate, the departure should be</i></p>	

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<p><i>disclosed in a separate paragraph of the report.</i> The effects of the departure on the financial statements should be disclosed if such effects have been determined by management or are readily known to the accountant as the result of the accountant's procedures.</p>	
<p>Supplementary Information That Accompanies Financial Statements and the Accountant's Compilation Report Thereon</p>	
<p>.32 When supplementary information accompanies financial statements and the accountant's compilation report thereon, the accountant should clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information in either (Ref: par. A35A37)</p> <ul style="list-style-type: none"> <i>a.</i> an separate other matter paragraph in the accountant's compilation report on the financial statements or <i>b.</i> a separate report on the supplementary information. 	
<p>.33 When the accountant has performed a compilation engagement with respect to both the financial statements and the supplementary information, the accountant should include an other matter separate paragraph in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. A36 A38 and A38A40)</p> <ul style="list-style-type: none"> <i>a.</i> the information is presented for purposes of additional analysis and is not a required part of the basic financial statements; 	

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- b.* the information is the representation of management;
and
- c.* the information was subject to the compilation engagement, however, the accountant has not audited or reviewed the information and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on such information.

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<p>.34 When the accountant has performed a compilation engagement with respect to the financial statements but the supplementary information was not subject to the compilation engagement, the accountant should include an other-matter <i>separate</i> paragraph in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. .A37A39-.A38A40)</p> <ul style="list-style-type: none"> a. the information is presented for purposes of additional analysis and is not a required part of the basic financial statements; b. the information is the representation of management; and c. the information was not subject to the compilation engagement and, accordingly, the accountant does not express an opinion, a conclusion, nor provide any assurance on such information. 	
Required Supplementary Information	
<p>.35 With regard to the requirement in paragraph .32, with respect to required supplementary information, the accountant should include an other-matter <i>separate</i> paragraph in the accountant's compilation report on the financial statements. The other-matter paragraph should include language to explain the following circumstances, as applicable: (Ref: par. .A39A41)</p> <ul style="list-style-type: none"> a. The required supplementary information is included, and the accountant performed a compilation 	

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<p>engagement on the required supplementary information.</p> <p><i>b.</i> The required supplementary information is included, and the accountant did not perform a compilation, review, or audit on the required supplementary information.</p> <p><i>c.</i> The required supplementary information is omitted.</p> <p><i>d.</i> Some required supplementary information is missing, and some is presented in accordance with the prescribed guidelines. (Ref: par. A40A42)</p> <p><i>e.</i> The accountant has identified departures from the prescribed guidelines.</p> <p><i>f.</i> The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.</p>	
<p>.36 If the entity has presented all or some of the required supplementary information and the accountant did not perform a compilation engagement on the required supplementary information, the other-matter <i>separate</i> paragraph in the accountant’s compilation report referred to in paragraph .32 should include the following elements: (Ref: par. .A41)</p> <p><i>a.</i> A statement that [<i>identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)</i>] requires that the [<i>identify the required supplementary information</i>] be presented to supplement the basic financial statements</p>	

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

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<p><i>e.</i> 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 [<i>describe the material departures from the applicable financial reporting framework</i>]</p> <p><i>f.</i> 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 [<i>identify designated accounting standards-setter</i>]</p>	

Amendment to AR-C section 90, *Review of Financial Statements* (AICPA, *Professional Standards*)

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<p>1. AR-C section 90 addresses the accountant’s responsibilities when engaged to review financial statements. This amendment</p> <ul style="list-style-type: none"> • revises paragraph .01 to clarify that AR-C section 90 applies to reviews of all historical financial information but does not apply to reviews of other subject matter. • revises paragraphs .11 and .A17 to avoid misunderstandings as to the nature of an engagement letter 	

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<p>and to make clear that an oral understanding of the terms of the engagement is insufficient.</p> <ul style="list-style-type: none"> • revises paragraph .12 to use language consistent with that used in corresponding paragraphs in AR-C sections 70 and 80. • revises paragraph .39g to make clear that the accountant’s signature on the accountant’s review report can be digital. • revises paragraph .75 to reflect that disclosure of a different conclusion on revised financial statements from the accountant’s conclusion on the original financial statements due to subsequently discovered facts that became known to the accountant after the report release date would be in an other-matter paragraph to the accountant’s review report 	
<p>2. New language is shown in boldface italics; deleted language is shown by strikethrough.</p>	
<p>Scope and Applicability of This Section</p>	
<p>.01 This section addresses the accountant’s responsibilities when engaged to review financial statements. <i>This section is written in the context of a review of financial statements by an accountant.</i> This section may also <i>is to</i> be applied, <i>adapted</i> as necessary in the circumstances, to engagements to reviews of other historical financial information. <i>Reviews of subject matter other than historical financial information are to be performed</i></p>	<p><i>.A1 If the accountant is engaged to perform a review on historical financial information other than historical financial statements, references in this section to financial statements are to be taken as a reference to such other historical financial information.</i></p>

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<i>in accordance with Statements on Standards for Attestation Engagements.</i> (Ref: par. .A1–.A2A3)	
Agreement on Engagement Terms	Agreement on Engagement Terms (Ref: par. .11–.12 and .92)
<p>.11 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement <i>between the parties</i> and should include the following: (Ref: par. .A14A15–.A19A20)</p> <ul style="list-style-type: none"> a. The objectives of the engagement b. The responsibilities of management set forth in paragraph .25c of section 60 and paragraph .09 of this section 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 f. The expected form and content of the accountant’s review report and a statement that there may be circumstances in which the report may differ from its expected form and content 	<p>.A17 A18 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 .11 to be in a documented form, and, accordingly, a verbal an oral understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for review engagements.</p>
<p>.12 The engagement letter or other suitable form of written communication agreement should be signed by</p> <ul style="list-style-type: none"> a. the accountant or the accountant’s firm and 	

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<p><i>b.</i> management or those charged with governance, as appropriate. (Ref: par. .A15)</p>	
<p>.39 The written review report should include (Ref: par. .A77)</p> <p><i>a.</i> a title that includes the word <i>independent</i> to clearly indicate that it is the report of an independent accountant. (Ref: par. .A65)</p> <p><i>b.</i> an addressee, as appropriate for the circumstances of the engagement. (Ref: par. .A66)</p> <p><i>c.</i> an introductory paragraph that (Ref: par. .A67–.A69)</p> <ul style="list-style-type: none"> <i>i.</i> identifies the entity whose financial statements have been reviewed, <i>ii.</i> states that the financial statements identified in the report were reviewed, <i>iii.</i> identifies the financial statements, <i>iv.</i> specifies the date or period covered by each financial statement, <i>v.</i> 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 <i>vi.</i> 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. 	

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<p><i>d.</i> 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. .A70)</p> <p><i>e.</i> a section with the heading “Accountant’s Responsibility” that includes the following statements:</p> <ul style="list-style-type: none"><i>i.</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. .A71–.A73)<i>ii.</i> The accountant believes that the review evidence the accountant has obtained is sufficient and	

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<p>appropriate to provide a basis for the accountant's conclusion.</p> <p><i>f.</i> 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. .A46)</p> <p><i>g.</i> the manual, or printed, or digital signature of the accountant's firm.</p> <p><i>h.</i> the city and state where the accountant practices. (Ref: par. .A74)</p> <p><i>i.</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</p> <ul style="list-style-type: none"><i>i.</i> all the statements that the financial statements comprise, including the related notes, have been prepared and<i>ii.</i> management has asserted that it has taken responsibility for those financial statements. (Ref: par. .A75-.A76).	

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<i>Subsequently Discovered Facts That Become Known to the Accountant After the Report Release Date</i>	
<p>.75 If management revises the financial statements, the accountant should</p> <ul style="list-style-type: none"> a. apply the requirements of paragraph .72. 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 .76. (Ref: par. .A120) c. if the accountant’s conclusion on the revised financial statements differs from the accountant’s conclusion on the original financial statements, disclose in an emphasis of other matter paragraph, in accordance with paragraphs .52–.53 .54 <ul style="list-style-type: none"> i. the date of the accountant’s previous report, ii. a description of the revisions, and iii. the substantive reasons for the revisions. 	
	<p>.A147</p> <p>Exhibit C—Illustrations of Accountant’s Review Reports on Financial Statements (Ref: par. .A77, .A106, and .A127)</p>

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	<p>Illustration 3—An Accountant’s Review Report on Single Year Financial Statements Prepared in Accordance With the Tax-Basis of Accounting</p> <p>Circumstances include the following:</p> <ul style="list-style-type: none">• Review of a complete set of financial statements (single year).• The financial statements are of a partnership and 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. <p><u>Independent Accountant’s Review Report</u></p> <p><i>[Appropriate Addressee]</i></p> <p>I (We) have reviewed the accompanying financial statements of XYZ Partnership, which comprise the statement of assets, liabilities, and partners’ capital—tax-basis 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, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management’s (partners’) financial data and making inquiries of partnership management (owners<i>partners</i>). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial</p>

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	<p>statement as a whole. Accordingly, I (we) do not express such an opinion.</p> <p><i>Management's Responsibility for the Financial Statements</i></p> <p>Management (Partners) is (are) responsible for the preparation and fair presentation of these financial statements 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 relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.</p> <p><i>Accountant's Responsibility</i></p> <p>My (Our) responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with 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 conclusion.</p> <p><i>Accountant's Conclusion</i></p> <p>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</p>

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	<p>accordance with the basis of accounting the partnership uses for income tax purposes.</p> <p><i>Basis of Accounting</i></p> <p>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. Our conclusion is not modified with respect to this matter.</p> <p><i>[Signature of accounting firm or accountant, as appropriate]</i></p> <p><i>[Accountant's city and state]</i></p> <p><i>[Date of the accountant's review report]</i></p>
	<p>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</p> <p>Circumstances include the following:</p> <ul style="list-style-type: none"> • Review of a complete set of <i>interim</i> financial statements for the period ended September 30, 20XX, and for the three and nine months then ended. • The <i>interim</i> 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,

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	<p><i>Interim Financial Information</i> [AICPA, <i>Professional Standards</i>], is not applicable).</p> <p style="text-align: center;"><u>Independent Accountant’s Review Report</u></p> <p>[<i>Appropriate Addressee</i>]</p> <p>I (We) have reviewed the accompanying <i>interim</i> financial statements of XYZ Company, which comprise the balance sheet 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, and the related notes to the <i>interim</i> financial statements. A review includes primarily applying analytical procedures to management’s (owners’) financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the <i>interim</i> financial statements as a whole. Accordingly, I (we) do not express such an opinion.</p> <p><i>Management’s Responsibility for the Financial Statements</i></p> <p>Management (Owners) is (are) responsible for the preparation and fair presentation of these <i>interim</i> financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of <i>interim</i> financial statements that are free from material misstatement whether due to fraud or error.</p> <p><i>Accountant’s Responsibility</i></p> <p>My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting</p>

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	<p>and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the <i>interim</i> 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 conclusion.</p> <p><i>Accountant's Conclusion</i></p> <p>Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying <i>interim</i> financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.</p> <p><i>[Signature of accounting firm or accountant, as appropriate]</i></p> <p><i>[Accountant's city and state]</i></p> <p><i>[Date of the accountant's review report]</i></p>