

## Section 60

# **General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services**

### Introduction

#### Scope of This Section

**.01** This section provides general principles for engagements performed in accordance with Statements on Standards for Accounting and Review Services (SSARs) 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 SSARs when describing the professional requirements imposed on accountants performing a review, compilation, or an engagement to prepare financial statements.

**.02** This section is intended to help accountants better understand their professional responsibilities when performing an engagement in accordance with SSARs. Additional sections have been established to set forth specific performance and reporting requirements. Such additional requirements are based on the general principles provided by this section, and any requirements created by this section also have been incorporated into the additional sections.

**.03** SSARs are written in the context of a review, compilation, or an engagement to prepare financial statements 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. SSARs do not address the responsibilities of the accountant that may exist in legislation, regulation, or otherwise. Such responsibilities may differ from those established in SSARs. Accordingly, although the accountant may find aspects of SSARs helpful in such circumstances, it is the responsibility of the accountant to ensure compliance with all relevant legal, regulatory, or professional obligations.

## Effective Date

.04 This section is effective for engagements performed in accordance with SSARs for periods ending on or after December 15, 2015. Early implementation is permitted.

## Objective

.05 The objective of the accountant is to obtain an understanding of the general principles for engagements performed in accordance with SSARs.

## Definitions

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

**Engagement partner.**<sup>1</sup> 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.

**Engagement team.** All accountants and staff performing the engagement and any individuals engaged by the firm who perform procedures on the engagement.

**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 SSARs; exhibits to SSARs; the AICPA Guide *Compilation and Review Engagements*,<sup>2</sup> guidance on reviews, compilations, and engagements to prepare financial statements included

1. This term is also defined in paragraph .13 of QC section 10, *A Firm's System of Quality Control* (AICPA, *Professional Standards*), for purposes of the Statements on Quality Control Standards. Refer to QC section 10 for specific language.

2. The title of the 2015 guide will be *Review, Compilation, and Financial Statement Preparation Engagements*.

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 and review publications not defined as interpretive publications; the AICPA's annual *Alert Developments in Review, Compilation, and Financial Statement Preparation Engagements*; articles addressing 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 reviews, compilations, and engagements to prepare financial statements, and checklists; and other publications addressing 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 review, compilation, or engagement to prepare financial statements.

## Requirements

### Financial Statements

**.07** 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–.A10)

## **Ethical Requirements**

.08 The accountant should comply with relevant ethical requirements. (Ref: par. .A11–.A14)

## **Professional Judgment**

.09 The accountant should exercise professional judgment in the performance of an engagement in accordance with SSARs. (Ref: par. .A15–.A19)

## **Conduct of the Engagement in Accordance With SSARs**

.10 The accountant must perform a review, compilation, or an engagement to prepare financial statements in accordance with SSARs, except for certain reviews of interim financial information as discussed in section 90, *Review of Financial Statements*.<sup>3</sup>

### ***Complying With AR-C Sections Relevant to the Engagement***

.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. .A20–.A25)

.12 The accountant should have an understanding of the entire text of an AR-C section, including its application and other explanatory material, to understand its objectives and apply its requirements properly. (Ref: par. .A26–.A30)

.13 An accountant should not represent compliance with SSARs in the accountant's compilation or review report unless the accountant has complied with the requirements of this section and all other AR-C sections relevant to the engagement.

### ***Complying With Relevant Requirements***

.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. .A31)

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3. Paragraph .02 of section 90, *Review of Financial Statements*.

### ***Defining Professional Responsibilities in SSARs***

**.15** SSARs use the following two categories of professional requirements, identified by specific terms, to describe the degree of responsibility they impose on accountants:

- *Unconditional requirements.* The accountant must comply with an unconditional requirement in all cases in which such requirement is relevant. SSARs use the word “must” to indicate an unconditional requirement.
- *Presumptively mandatory requirements.* The accountant must comply with a presumptively mandatory requirement in all cases in which such a requirement is relevant, except in rare circumstances discussed in paragraph .16. SSARs use the word “should” to indicate a presumptively mandatory requirement. (Ref: par. .A32)

**.16** In rare circumstances, the accountant may judge it necessary to depart from a relevant presumptively mandatory requirement. In such circumstances, the accountant should perform alternative procedures to achieve the intent of the requirement. The need for an accountant to depart from a relevant, presumptively mandatory requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the intent of the requirement.

### ***Interpretive Publications***

**.17** The accountant should consider applicable interpretive publications in the performance of an engagement in accordance with SSARs. (Ref: par. .A33)

### ***Other Preparation, Compilation and Review Publications***

**.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)

## Engagement Level Quality Control

**.19** In an engagement performed in accordance with SSARs, the engagement partner should possess the competence and capabilities to perform the engagement and competence in financial reporting, appropriate to the engagement circumstances.

**.20** In an engagement performed in accordance with SSARs, the engagement partner should take responsibility for the following: (Ref: par. .A37–.A40)

- a. The overall quality of each engagement to which that partner is assigned
- b. The direction, supervision, planning and performance of the engagement in compliance with professional standards and applicable legal and regulatory requirements (Ref: par. .A41)
- c. The accountant's report being appropriate in the circumstances
- d. The engagement being performed in accordance with the firm's quality control policies and procedures, including the following:
  - i. Being satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and engagements have been followed, and that conclusions reached are appropriate, including considering whether there is information that would lead the engagement partner to conclude that management lacks integrity (Ref: par. .A42–.A43)
  - ii. Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the engagement and expertise in financial reporting to
    - (1) perform the engagement in accordance with professional standards and applicable legal and regulatory requirements and
    - (2) enable a report that is appropriate in the circumstances to be issued, if applicable
  - iii. Taking responsibility for appropriate engagement documentation being maintained.

### ***Relevant Considerations After Engagement Acceptance***

**.21** If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner should communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

### ***Compliance With Relevant Ethical Requirements***

**.22** Throughout the engagement, the engagement partner should remain alert, through observation and making inquiries as necessary, for evidence of noncompliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, should determine the appropriate action.

### ***Monitoring***

**.23** An effective system of quality control for a firm includes a monitoring process designed to provide the firm with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner should consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the engagement.

### **Acceptance and Continuance of Client Relationships and Engagements**

**.24** The accountant should not accept an engagement to be performed in accordance with SSARSs if (Ref: par. .A44)

- a. the accountant has reason to believe that relevant ethical requirements will not be satisfied; (Ref: par. .A45)
- b. the accountant's preliminary understanding of the engagement circumstances indicates that information needed to perform the engagement is likely to be unavailable or unreliable; or (Ref: par. .A46)

- c. the accountant has cause to doubt management's integrity such that it is likely to affect the performance of the engagement.

**.25** As a condition for accepting an engagement to be performed in accordance with SSARs, 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 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.
  - 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. .A49)
    - (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 engagement.



- (3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.

## Application and Other Explanatory Material

### Financial Statements (Ref: par. .07)

**.A1** The preconditions for the performance of an engagement to prepare financial statements are included in paragraphs .24–.25 of this section.

**.A2** The preconditions for the performance of a compilation engagement are included in paragraphs .24–.25 of this section and paragraph .08 of section 80, *Compilation Engagements*.

**.A3** The preconditions for the performance of a review engagement are included in paragraphs .24–.25 of this section and paragraphs .08–.09 of section 90, *Review of Financial Statements*.

**.A4** The preparation and fair presentation of the financial statements require

- the identification of the applicable financial reporting framework, in the context of any relevant laws or regulations.
- the preparation and fair presentation of the financial statements in accordance with that framework.
- the inclusion of an adequate description of that framework in the financial statements.

The preparation and fair presentation of the financial statements require management to exercise judgment when making accounting estimates that are reasonable in the circumstances as well as when selecting and applying appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.

**.A5** The financial statements may be prepared in accordance with one of the following:

- A general purpose framework (a financial reporting framework designed to meet the common financial information needs of a wide range of users)
- A special purpose framework

**.A6** The applicable financial reporting framework often encompasses financial accounting standards promulgated by an authorized or recognized standards-setting organization or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial accounting standards promulgated by an authorized or recognized standards-setting organization and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources or may even consist only of such sources. Such other sources may include the following:

- The legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations regarding accounting matters
- Published accounting interpretations of varying authority issued by standards-setting, professional, or regulatory organizations
- Published views of varying authority on emerging accounting issues issued by standards-setting, professional, or regulatory organizations
- General and industry practices widely recognized and prevalent
- Accounting literature

When conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained or among the sources that encompass the financial reporting framework, the source with the highest authority prevails.

**.A7** The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficiently broad principles that can serve as a basis for developing and

applying accounting policies that are consistent with the concepts underlying the requirements of the framework.

**.A8** The financial accounting standards promulgated by organizations that are authorized or recognized to promulgate standards to be used by entities for preparing financial statements in accordance with a general purpose framework include the FASB *Accounting Standards Codification*;® International Financial Reporting Standards, issued by the International Accounting Standards Board; Statements of Federal Financial Accounting Standards, issued by the Federal Accounting Standards Advisory Board for U.S. federal government entities; and Statements of the Governmental Accounting Standards Board, issued by the Governmental Accounting Standards Board for U.S. state and local governmental entities.

**.A9** The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance, and cash flows of an entity. For example, a complete set of financial statements might include a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements. Examples of a single financial statement, each of which would include related notes, include the following:

- Balance sheet
- Statement of income or statement of operations
- Statement of retained earnings
- Statement of cash flows
- Statement of assets and liabilities
- Statement of changes in owners' equity
- Statement of revenue and expenses
- Statement of operations by product lines

**.A10** An accountant may be engaged to prepare or perform a compilation or review engagement on a complete set of financial statements or an individual financial statement (for example, balance sheet only). The financial statements may be for an annual period or

for a shorter or longer period, depending on management's needs. However, it is likely not appropriate for the entity to present financial statements for a period longer or shorter than an annual period in a comparative presentation with financial statements for an annual period.

### **Ethical Requirements** (Ref: par. .08)

**.A11** The accountant is subject to relevant ethical requirements relating to engagements performed in accordance with SSARs. Ethical requirements consist of those contained in the AICPA Code of Professional Conduct, together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.

**.A12** The AICPA Code of Professional Conduct establishes the fundamental principles of professional ethics, which include the following:

- Responsibilities
- The public interest
- Integrity
- Objectivity and independence
- Due care
- Scope and nature of services

**.A13** Due care requires the accountant to discharge professional responsibilities with competence and have the appropriate capabilities to perform the engagement and enable an appropriate accountant's report to be issued, if applicable.

**.A14** QC section 10, *A Firm's System of Quality Control* (AICPA, *Professional Standards*), sets out the firm's responsibilities to establish and maintain its system of quality control for engagements performed in accordance with SSARs and establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence.<sup>4</sup>

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4. Paragraphs .21–.25 of QC section 10.

## Professional Judgment (Ref: par. .09)

**.A15** Professional judgment is essential to the proper conduct of an engagement in accordance with SSARs because interpretation of relevant ethical requirements and SSARs and the informed decisions required throughout the engagement cannot be made without the application of relevant knowledge and experience to the facts and circumstances.

**.A16** 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 make informed decisions about appropriate courses of action when undertaking an engagement in accordance with SSARs. 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.

**.A17** 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 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 or the accountant, if applicable.

**.A18** Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of SSARs and accounting principles and is appropriate in light of, and consistent with, the facts and circumstances that were known to the accountant up to the date of the issuance of financial statements prepared by the accountant or the date of the accountant's compilation or review report.

**.A19** Professional judgment needs to be exercised throughout the engagement performed in accordance with SSARs. It also needs to be appropriately documented in accordance with the requirements of section 70, *Preparation of Financial Statements*; section 80, *Compilation Engagements*; or section 90, *Review of Financial Statements*, 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.

## **Conduct of an Engagement in Accordance With SSARs**

### ***Complying With AR-C Sections Relevant to the Engagement***

(Ref: par. .11–.12)

**.A20** ARSC is designated to promulgate standards under the “General Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.300.001) and the “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001) of the AICPA Code of Professional Conduct<sup>5</sup> with respect to unaudited financial statements or other unaudited financial information of an entity that is not required to file financial statements with a regulatory agency in connection with the sale or trading of its securities in a public market. ARSC develops and issues standards in the form of SSARs through a process that includes deliberation in meetings open to the public, public exposure of proposed SSARs, and a formal vote. SSARs are codified in AR-C sections in AICPA *Professional Standards*.

**.A21** SSARs provide the standards used for fulfilling the overall objectives of the accountant’s work. SSARs address the general responsibilities of the accountant as well as the accountant’s further considerations relevant to the application of those responsibilities to specific topics.

**.A22** The scope, effective date, and any specific limitation of the applicability of a specific AR-C section are made clear in the AR-C section. Unless otherwise stated in the AR-C section, the accountant is permitted to apply an AR-C section before the effective date specified therein.

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5. AICPA’s Professional Ethics Executive Committee has restructured the Code of Professional Conduct. References in this standard are to the revised code, which is effective December 15, 2014. It is available at <http://pub.aicpa.org/codeofconduct>.

**.A23** In certain engagements, the accountant also may be required to comply with other requirements in addition to SSARSs. SSARSs do not override law or regulation that governs a review, compilation, or an engagement to prepare financial statements. In the event that such law or regulation differs from SSARSs, an engagement conducted only in accordance with law or regulation will not necessarily comply with SSARSs.

**.A24** The accountant may also conduct the compilation or review in accordance with both SSARSs and

- International Standard on Related Services 4410 (Revised), *Compilation Engagements*,
- International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*, or
- compilation or review standards of a specific jurisdiction or country.

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.

**.A25** SSARSs are relevant to engagements to prepare financial statements and compilations and reviews of financial statements of governmental entities. The accountant's responsibilities, however, may be affected by law, regulation, or other authority (such as government policy requirements or resolutions of the legislature), which may encompass a broader scope than an engagement in accordance with SSARSs. These additional responsibilities are not dealt with in SSARSs.

**.A26** In addition to objectives and requirements, an AR-C section contains related guidance in the form of application and other explanatory material. It may also contain introductory material that provides context relevant to a proper understanding of the AR-C section and definitions. The entire text of an AR-C section, therefore, is relevant to an understanding of the objectives stated in an AR-C section and the proper application of the requirements of an AR-C section.

**.A27** When necessary, the application and other explanatory material provides further explanation of the requirements of an AR-C section and guidance for carrying them out. In particular, it may

- explain more precisely what a requirement means or is intended to cover.
- include examples of procedures that may be appropriate in the circumstances.

Although such guidance does not, in itself, impose a requirement, it is relevant to the proper application of the requirements of an AR-C section. The accountant is required by paragraph .12 to understand the application and other explanatory material; how the accountant applies the guidance in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the AR-C section. The words “may,” “might”, and “could” are used to describe these actions and procedures. The application and other explanatory material may also provide background information on matters addressed in an AR-C section.

**.A28** Appendixes form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related AR-C section or within the title and introduction of the appendix itself.

**.A29** Introductory material may include, as needed, such matters as explanation of the following:

- The purpose and scope of the AR-C section, including how the AR-C section relates to other AR-C sections
- The subject matter of the AR-C section
- The respective responsibilities of the accountant and others in relation to the subject matter of the AR-C section
- The context in which the AR-C section is set

**.A30** An AR-C section may include, in a separate section under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of SSARs. These are provided to assist in the consistent application and interpretation of SSARs and are not intended to override definitions that may be established for other purposes, whether in law, regulation, or otherwise. Unless otherwise



indicated, those terms will carry the same meanings throughout SSARs.

***Complying With Relevant Requirements*** (Ref: par. .14)

**.A31** 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.

***Defining Professional Responsibilities in SSARs*** (Ref: par. .15)

**.A32** If an AR-C section provides that a procedure or action is one that the accountant “should consider,” consideration of the procedure or action is presumptively required. Whether the accountant performs the procedure or action is based upon the outcome of the accountant’s consideration and the accountant’s professional judgment.

***Interpretive Publications*** (Ref: par. .17)

**.A33** Interpretive publications are not SSARs. *Interpretive publications* are recommendations on the application of SSARs in specific circumstances, including engagements for entities in specialized industries. An interpretive publication is issued under the authority of ARSC only after all ARSC members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with SSARs. Compilation and review interpretations of SSARs and exhibits to SSARs are included in the AR-C sections.

***Other Preparation, Compilation and Review Publications***

(Ref: par. .18)

**.A34** Other preparation, compilation and review publications have no authoritative status; however, they may help the accountant understand and apply SSARs. The accountant is not expected to be aware of the full body of other preparation, compilation and review publications.

**.A35** Although the accountant determines the relevance of these publications in accordance with paragraph .18, the accountant may presume that other preparation, compilation and review publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are appropriate. These other preparation, compilation and review publications are listed in the exhibit, “Other Preparation, Compilation and Review Publications.”

**.A36** 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 SSARs and the degree to which the issuer or author is recognized as an authority in matters addressing reviews, compilations, and engagements to prepare financial statements. 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.

### **Engagement Level Quality Control** (Ref: par. .20)

**.A37** Within the context of the firm’s system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement and provide the firm with relevant information to enable the functioning of that part of the firm’s system of quality control relating to independence.

**.A38** The actions of the engagement partner and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking responsibility for the overall quality of each engagement, emphasize the fact that quality is essential when performing an engagement in accordance with SSARs and the importance to the quality of the engagement of

- a. performing work that complies with professional standards and regulatory and legal requirements.
- b. complying with the firm’s quality control policies and procedures, as applicable.

- c. issuing a report, if applicable, for the engagement that is appropriate in the circumstances.
- d. the engagement team's ability to raise concerns without fear of reprisals.

**.A39** Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to

- competence of personnel through their recruitment and formal training.
- independence through the accumulation and communication of relevant independence information.
- maintenance of client relationships through acceptance and continuance systems.
- adherence to regulatory and legal requirements through the monitoring process.

When considering the deficiencies identified in the firm's system of quality control that may affect the engagement, the engagement partner may consider measures taken by the firm to rectify those deficiencies.

**.A40** A deficiency in the firm's system of quality control does not necessarily indicate that an engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements or that the accountant's report, if applicable, was not appropriate.

### ***Assignment of Engagement Teams*** (Ref: par. .20b)

**.A41** When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's

- understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
- understanding of professional standards and applicable legal and regulatory requirements.

- technical expertise, including expertise with relevant information technology and specialized areas of accounting or attest services.
- knowledge of relevant industries in which the client operates.
- ability to apply professional judgment.
- understanding of the firm's quality control policies and procedures.

***Acceptance and Continuance of Client Relationships and Engagements Performed in Accordance With SSARs***

(Ref: par. .20d(i))

**.A42** QC section 10 requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and engagements in accordance with SSARs are appropriate:

- The integrity of the principal owners, key management, and those charged with governance of the entity
- Whether the engagement team is competent to perform the engagement and has the necessary capabilities, including time and resources
- Whether the firm and the engagement team can comply with relevant ethical requirements
- Significant findings or issues that have arisen during the current or previous engagement and their implications for continuing the relationship

**.A43** If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it is not appropriate to accept the engagement, unless required by law or regulation, because doing so may lead to the accountant being associated with the entity's financial statements in an inappropriate manner.

## Acceptance and Continuance of Client Relationships and Engagements (Ref: par. .24–.25)

**.A44** The accountant's consideration of engagement continuance and relevant ethical requirements occurs throughout the engagement as conditions and changes in circumstances occur. Performing initial procedures on engagement continuance and evaluation of relevant ethical requirements at the beginning of an engagement informs the accountant's decisions and actions prior to the performance of other significant activities for the engagement.

**.A45** Relevant ethical requirements with respect to a review engagement include independence.

**.A46** This consideration is not directed at the need that sometimes arises in the course of an engagement to assist management by recommending adjusting entries required to finalize the financial statements prepared by management. An example of where the accountant may have cause to doubt whether the information needed to perform the review will be available or reliable is when the accounting records necessary for performing analytical procedures are suspected to be substantially inaccurate or incomplete.

**.A47** Factors that are relevant to the accountant's determination of the acceptability of the financial reporting framework selected by management to be applied in the preparation of the financial statements include the following:

- The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users)
- Whether law or regulation prescribes the applicable financial reporting framework

**.A48** In accordance with this section, the accountant is required to obtain the agreement of management on management's responsibilities in relation to the financial statements as a condition precedent to accepting the engagement. In smaller entities, management may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management's agreement on an informed basis, the accountant may find it necessary to discuss those responsibilities with management in advance of seeking management's agreement on its responsibilities.

**.A49** The accountant is entitled to rely on management to provide all relevant information for the engagement. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations, and other information relevant to the preparation of the financial statements in accordance with the financial reporting framework adopted by management. The information provided may include, for example, information about management's assumptions, intentions, or plans underlying development of accounting estimates needed to prepare the financial statements in accordance with the applicable financial reporting framework.

<http://www.pbookshop.com>

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## Exhibit—Other Preparation, Compilation and Review Publications

This listing identifies *other preparation, compilation and review publications* published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff and are, therefore, presumed to be appropriate, as defined in section 60. Products may be obtained through [www.cpa2biz.com](http://www.cpa2biz.com).

### Current AICPA Alerts

*Developments in Review, Compilation, and Financial Statement Preparation Engagements*

*Understanding the Financial Reporting Framework for Small- and Medium-Sized Entities*

*Independence and Ethics Developments*

**AICPA Technical Practice Aids Accounting and Compilation and Review Technical Questions and Answers (TIS) Sections**  
(available in hard copy)

### Special Purpose Frameworks

- TIS Section 1500.07, “Disclosure Concerning Subsequent Events in Special Purpose Financial Statements”
- TIS Section 1800.06, “Applicability of Fair Value Disclosure Requirements in FASB ASC 820 to Financial Statements Prepared in Accordance With a Special Purpose Framework”

### Compilation and Review Engagements

- TIS Section 9150.04, “Financial Statements Marked As ‘Unaudited’”
- TIS Section 9150.08, “Supplementary Information”
- TIS Section 9150.09, “Applicability of AR Section 300 to Certain Companies Required to File With Regulatory Bodies”

- TIS Section 9150.10, “Review of Financial Statements Included in a Prescribed Form”
- TIS Section 9150.16, “Reference to Accountant’s Report in Notes to Financial Statements”
- TIS Section 9150.18, “Bank Engaged an Accountant to Compile a Financial Statement of Another Entity”
- TIS Section 9150.20, “Reissuance When Not Independent”
- TIS Section 9150.24, “Issuing a Compilation Report on Financial Statements That Omit Substantially All Disclosures After Issuing a Report on the Same Financial Statements That Include Substantially All Disclosures”
- TIS Section 9150.25, “Determining Whether Financial Statements Have Been Prepared by the Accountant”
- TIS Section 9150.26, “The Accountant’s Responsibilities for Subsequent Events in Compilation and Review Engagements”
- TIS Section 9150.27, “The Accountant’s Reporting Responsibility With Respect to Subsequent Discovery of Facts Existing at the Date of the Report”
- TIS Section 9150.29, “Effects on Compilation and Review Engagements When Management Does Not Assess Whether the Reporting Entity Is the Primary Beneficiary of a Variable Interest Entity and Instructs the Accountant to Not Perform the Assessment”
- TIS Section 9150.30, “Disclosure of Independence Impairment in the Accountant’s Compilation Report on Comparative Financial Statements When the Accountant’s Independence Is Impaired in Only One Period”
- TIS Section 9150.31, “Break-Even Financial Statements”

### ***Compilation of Financial Statements***

- TIS Section 1300.17, “Omission of Reconciliation of Net Income to Cash Flow From Operations”
- TIS Section 9160.26, “Compilation and Review—Comparative Financial Statements”



- TIS Section 8900.10, “Successor Accountant Becomes Aware of Information During the Performance of a Compilation or Review That Leads the Successor Accountant to Believe That Financial Statements Reported On by a Predecessor Accountant Who Has Ceased Operations May Require Revision”

### ***Compilation Reports***

- TIS Section 1300.17, “Omission of Reconciliation of Net Income to Cash Flow From Operations”
- TIS Section 9110.07, “Statement of Cash Receipts and Disbursements”

### ***Review of Financial Statements***

- TIS Section 8900.10, “Successor Accountant Becomes Aware of Information During the Performance of a Compilation or Review That Leads the Successor Accountant to Believe That Financial Statements Reported On by a Predecessor Accountant Who Has Ceased Operations May Require Revision”

### ***Review Reports***

- TIS Section 8800.30, “Making Reference to Review Report”
- TIS Section 9110.07, “Statement of Cash Receipts and Disbursements”

### ***Other Publications***

*Corporations: Checklists and Illustrative Financial Statements*

*The Engagement Letter: Best Practices and Examples*

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