

AR Section 110

Compilation of Specified Elements, Accounts, or Items of a Financial Statement

Issue date, unless otherwise indicated: July 2005

Source: SSARS No. 13; SSARS No. 17

.01 Statements on Standards for Accounting and Review Services (SSARSs) provide guidance concerning the standards and procedures applicable when an accountant is engaged to report on compiled financial statements or submits financial statements to his or her client or to third parties. By definition, presentations of specified elements, accounts, or items of a financial statement are not financial statements. This statement expands SSARSs to apply when an accountant is engaged to report or issues a report on one or more compiled specified elements, accounts, or items of a financial statement. If, however, the specified element, account, or item of a financial statement is included as supplementary information, the accountant should refer to paragraph .53 of section 80, *Compilation of Financial Statements*. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.02 A compilation of one or more specified elements, accounts, or items of a financial statement is limited to assisting management (owners) in presenting financial information without undertaking to obtain or provide any assurance that there are no material modifications that should be made to that information. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.03 Examples of specified elements, accounts, or items of a financial statement that an accountant may compile include schedules of rentals, royalties, profit participation, or provision for income taxes.

Conditions for Compiling Specified Elements, Accounts, or Items of a Financial Statement

.04 Nothing in this statement is intended to preclude an accountant from assisting management (owners) in presenting one or more specified elements, accounts, or items of a financial statement and submitting such specified elements, accounts, or items of a financial statement to the client or to third parties without the issuance of a compilation report, unless the accountant has been engaged to report on such compiled specified elements, accounts, or items of a financial statement. If an accountant assists management (owners) in presenting a schedule of one or more specified elements, accounts, or items of a financial statement,^[1] the accountant should consider how such a presentation of specified elements, accounts, or items will be used. The accountant should consider the potential of being associated with the schedule and the likelihood that the user may inappropriately infer, through that association, an unintended level

^[1] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of Statement on Standards for Accounting and Review Services (SSARS) No. 19.]

of reliance on the information. If the accountant believes that he or she will be associated with the information, the accountant should consider issuing a compilation report so a user will not infer an unintended level of reliance on the information. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.05 An engagement to report on one or more compiled specified elements, accounts, or items of a financial statement may be undertaken as a separate engagement or in conjunction with a compilation, review, or audit of financial statements. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Understanding With the Entity

.06 When an accountant is engaged to report on one or more compiled specified elements, accounts, or items of a financial statement, the accountant should establish an understanding with management regarding the services to be performed and should document the understanding through a written communication with management. Such an understanding reduces the risks that either the accountant or management may misinterpret the needs or expectations of the other party. For example, it reduces the risk that management may inappropriately rely on the accountant to protect the entity against certain risks or perform certain functions that are management's responsibility. The accountant should ensure that the understanding includes the objectives of the engagement, management's responsibilities, the accountant's responsibilities, and the limitations of the engagement. In some cases, the accountant may establish such understanding with those charged with governance. An understanding with management and, if applicable, those charged with governance, regarding a compilation of specified elements, accounts, or items of a financial statement should include the following matters:

- The objective of a compilation of specified elements, accounts, or items of a financial statement is to assist management in presenting such financial information.
- The accountant utilizes information that is the representation of management (owners) without undertaking to obtain any assurance that there are no material modifications that should be made to the specified element, account, or item of a financial statement in order for the specified element, account, or item to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the specified element, account, or item of a financial statement in accordance with the applicable financial reporting framework.
- Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the specified element, account, or item of a financial statement.
- Management is responsible for the prevention and detection of fraud.
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.

- Management is responsible for making all financial records and related information available to the accountant.
- The accountant is responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.
- A compilation differs significantly from a review or an audit of specified elements, accounts, or items of a financial statement. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion or provide any assurance regarding the specified element, account, or item of a financial statement.
- The engagement cannot be relied upon to disclose errors, fraud,² or illegal acts.³
- The accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of compilation procedures⁴ that fraud or an illegal act may have occurred.⁵ The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.
- The effect of any independence impairments on the expected form of the accountant's compilation report, if applicable.

[Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.07 When the accountant is engaged to report on one or more compiled specified elements, accounts, or items of a financial statement and evidence or information comes to his or her attention during the engagement that fraud or an illegal act may have occurred, the accountant should adhere to the communication requirements contained in paragraphs .54–.55 of section 80. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

² For purposes of this statement, *fraud* is an intentional act that results in a misstatement in compiled specified elements, accounts, or items of a financial statement.

³ For purposes of this statement, *illegal acts* are violations of laws or government regulations, excluding fraud.

⁴ Performance requirements with respect to an engagement to compile one or more specified elements, accounts, or items of a financial statement are contained in paragraphs .08 and .09.

⁵ Whether the act is, in fact, fraudulent or illegal is a determination that is normally beyond the accountant's professional competence. An accountant, in reporting on one or more specified elements, accounts, or items of a financial statement, presents himself or herself as one who is proficient in accounting and compilation services. The accountant's training, experience, and understanding of the client and its industry may provide a basis for recognition that some client acts coming to his or her attention may be fraudulent or illegal. However, the determination about whether a particular act is fraudulent or illegal would generally be based on the advice of an informed expert qualified to practice law or may have to await final determination by a court of law.

Performance Requirements

.08 When the accountant is engaged to report on one or more compiled specified elements, accounts, or items of a financial statement, he or she should adhere to the compilation performance requirements contained in paragraphs .06–.13 of section 80. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.09 Before issuance of a compilation report on one or more specified elements, accounts, or items of a financial statement, the accountant should read such compiled specified elements, accounts, or items of a financial statement and consider whether the information appears to be appropriate in form and free of obvious material errors. In this context, the term *error* refers to mistakes in the compilation of the specified elements, accounts, or items of a financial statement, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including inadequate disclosures. [Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Documentation Requirements

.10 When the accountant is engaged to report on one or more compiled specified elements, accounts, or items of a financial statement, he or she should adhere to the documentation requirements contained in paragraphs .14–.15 of section 80. [Paragraph added, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Reporting Requirements

.11 The accountant's objective in reporting on one or more compiled specified elements, accounts, or items of a financial statement is to prevent misunderstanding of the degree of responsibility the accountant is assuming when his or her name is associated with the elements, accounts, or items of a financial statement. When the accountant issues a compilation report on one or more specified elements, accounts, or items of a financial statement, the basic elements of the report are as follows:

- a. *Title.* The accountant's compilation report should have a title that clearly indicates that it is the accountant's compilation report. The accountant may indicate that he or she is independent in the title, if applicable. Appropriate titles would be "Accountant's Compilation Report" or "Independent Accountant's Compilation Report."
- b. *Addressee.* The accountant's report should be addressed as appropriate in the circumstances of the engagement.
- c. *Introductory paragraph.* The introductory paragraph in the accountant's report should
 - i. identify the entity whose elements, accounts, or items of a financial statement have been compiled;
 - ii. state that the specified element(s), account(s), or item(s) have been compiled;
 - iii. identify the specified element(s), account(s), or item(s) that have been compiled;
 - iv. specify the date or period covered by the specified element(s), account(s), or items;

- v. include a statement that the accountant has not audited or reviewed the specified element(s), account(s), or item(s) and, accordingly, does not express an opinion or provide any assurance about whether the specified element(s), account(s), or item(s) are in accordance with the applicable financial reporting framework; and
 - vi. if the compilation was performed in conjunction with a compilation of the entity's financial statements, the paragraph should so state and indicate the date of the accountant's compilation report on those financial statements. Furthermore, any departure from the standard report on those statements should also be disclosed if considered relevant to the presentation of the specified element(s), account(s), or item(s).
- d. *Management's responsibility for the specified element(s), account(s), or item(s) and for internal control over financial reporting.* A statement that management (owners) is (are) responsible for the preparation and fair presentation of the specified element(s), account(s), or item(s) in accordance with the applicable financial reporting framework and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the specified element(s), account(s), or item(s).
 - e. *Accountant's responsibility.* A statement that the accountant's responsibility is to conduct the compilation in accordance with SSARSs issued by the AICPA.
 - f. A statement that the objective of a compilation is to assist management in presenting financial information in the form of specified element(s), account(s), or item(s) of a financial statement without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the specified element(s), account(s), or item(s) of a financial statement report.
 - g. *Signature of the accountant.* The manual or printed signature of the accounting firm or the accountant, as appropriate.
 - h. *Date of the accountant's report.* The date of the compilation report (the date of completion of the compilation should be used as the date of the accountant's report).

Procedures that the accountant might have performed as part of the compilation engagement should not be described in the report.

See exhibit B, "Illustrative Accountant's Compilation Reports on Specified Elements, Accounts, or Items of a Financial Statement," for illustrative compilation reports.

[Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.12 Each page of the specified elements, accounts, or items of a financial statement compiled by the accountant should include a reference, such as "See accountant's compilation report" or "See independent accountant's compilation report." [Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

[.13] [Paragraph renumbered and deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Reporting When the Accountant Is Not Independent

.14 When the accountant is issuing a report with respect to a compilation of specified element(s), account(s), or item(s) of a financial statement for an entity, with respect to which the accountant is not independent, the accountant's report should be modified. In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA Code of Professional Conduct. The accountant should indicate his or her lack of independence in a final paragraph of the accountant's compilation report. An example of such a disclosure would be^[6]

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

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

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

If the accountant elects to disclose a description about the reasons his or her independence is impaired, the accountant should ensure that all reasons are included in the description.

[Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.15 This section is effective for engagements entered into after December 15, 2005. Early application is permitted. [Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

^[6] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Exhibit A

Illustrative Engagement Letter for a Compilation of Specified Elements, Accounts, or Items of a Financial Statement

[Appropriate Salutation]

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

We will compile, from information you provide, *[identify specified element, account, or item of the financial statement, schedule of accounts receivable or schedule of depreciation – income tax basis]* of XYZ Company as of December 31, 20XX, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

The objective of a compilation is to assist you in presenting financial information in the form of *[identify specified element, account, or item of the financial statement]*. We will utilize information that is your representation without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the *[identify specified element, account, or item of the financial statement]* in order for *[identify specified element, account, or item of the financial statement]* to be in conformity with *[the applicable financial accounting framework (for example, accounting principles generally accepted in the United States of America)]*.

You are responsible for

- a. the preparation and fair presentation of *[identify specified element, account, or item of the financial statement]* in accordance with *[the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)]*.
- b. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of *[identify specified element, account, or item of the financial statement]*.
- c. preventing and detecting fraud.
- d. identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- e. making all financial records and related information available to us.

We are responsible for conducting the engagement in accordance with SSARSS issued by the AICPA.

A compilation differs significantly from a review or an audit of financial information. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the

examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion or provide any assurance regarding the *[identify specified element, account, or item of the financial statement]* being compiled.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our compilation procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

If, during the period covered by the engagement letter, the accountant's independence is or will be impaired, insert the following:

We are not independent with respect to XYZ Company. We will disclose that we are not independent in our compilation report.

If, for any reason, we are unable to complete the compilation of your *[identify specified element, account, or item of the financial statement]*, we will not issue a report on such schedule as a result of this engagement.

Our fees for these services

We will be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.^[*]

Sincerely yours,

[Signature of accountant]

Acknowledged:
XYZ Company

President

Date

[As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2008, by SSARS No. 17. Paragraph renumbered and revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

^[*] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

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Exhibit B

Illustrative Compilation Reports on Specified Elements, Accounts, or Items of a Financial Statement

Standard Compilation Report on a Schedule of Accounts Receivable Prepared in Accordance With Accounting Principles Generally Ac- cepted in the United States of America

Accountant's Compilation Report

[Appropriate Salutation]

I (we) have compiled the accompanying schedule of accounts receivable of XYZ Company as of December 31, 20XX. I (we) have not audited or reviewed the accompanying schedule of accounts receivable and, accordingly, do not express an opinion or provide any assurance about whether the schedule of accounts receivable is in accordance with accounting principles generally accepted in the United States of America.

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

My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of a schedule of accounts receivable without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the schedule of accounts receivable.

[Signature of accounting firm or accountant, as appropriate]

[Date]

Standard Compilation Report on a Schedule of Depreciation Prepared in Accordance With the Basis of Accounting the Entity Uses for Federal Income Tax Purposes

Accountant's Compilation Report

[Appropriate Salutation]

I (we) have compiled the accompanying schedule of depreciation of XYZ Company as of December 31, 20XX. I (we) have not audited or reviewed the accompanying schedule of depreciation and, accordingly, do not express an opinion or provide any assurance about whether the schedule of depreciation is in accordance with the basis of accounting the Company uses for federal income tax purposes.

Management (owners) is (are) responsible for the preparation and fair presentation of the schedule of depreciation in accordance with the basis of accounting the Company uses for federal income tax purposes and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the schedule of depreciation.

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My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of a schedule of depreciation without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the schedule of depreciation.

[Signature of accounting firm or accountant, as appropriate]

[Date]

[Paragraph added, December 2010, to reflect presentation style and conforming changes necessary due to the issuance of SSARS No. 19.]
