

PUBLIC SESSION AGENDA
NORTH CAROLINA STATE BOARD OF CPA EXAMINERS
MARCH 20, 2013
3:00 P.M.
1101 OBERLIN ROAD
RALEIGH, NC

I. Administrative Items

A. Call to Order

In accordance with the State Government Ethics Act, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflict. Does any Board member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.

B. Welcome and Introduction of Guests

C. Approval of Agenda

D. Minutes

E. Financial/Budgetary Items

1. Financial Statements for February 2013

2. Consideration of a CD Investment

F. Election of Officers for 2013-2014

II. Legislative & Rule-Making Items

A. Status Update on Legislation

III. National Organization Items

A. Draft Response to Proposed Statements on Standards for Accounting and Review Services, *Review of Financial Statements and Review of Financial Statements – Special Considerations*

IV. State & Local Organization Items

V. Request for Declaratory Ruling

VI. Committee Reports

A. Professional Standards

B. Professional Education and Applications

VII. Public Comments

VIII. Closed Session

IX. 100th Anniversary Proclamation from the Office of the Governor

X. Adjournment

PUBLIC SESSION MINUTES
North Carolina State Board of CPA Examiners
February 25, 2013
1101 Oberlin Road
Raleigh, NC 27605

MEMBERS ATTENDING: Barton W. Baldwin, CPA, Vice President; Maria M. Lynch, Esq., Secretary-Treasurer; Bucky Glover, CPA; John M. Kledis, CPA; and Michael H. Womble, CPA.

STAFF ATTENDING: Robert N. Brooks, Executive Director; J. Michael Barham, CPA, Deputy Director; David R. Nance, CPA, Deputy Director; Frank Trainor, Esq., Staff Attorney; Lisa R. Hearne, Manager-Communications; Ann J. Hinkle, Manager-Professional Standards; Buck Winslow, Manager-Licensing; and Noel L. Allen, Legal Counsel.

GUESTS: James T. Ahler, CEO, NCACPA; Sharon Bryson, COO, NCACPA; Nicole Hendren, CPA, NCACPA; Suzanne Jolicoeur, Senior Manager, State Regulation & Legislation, AICPA; Curt Lee, Legislative Liaison, NCSA; Lyle Phipps, and David Isgett.

CALL TO ORDER: Vice President Baldwin called the meeting to order at 10:02 a.m.

MINUTES: The minutes of the January 28, 2013, meeting were approved as submitted.

FINANCIAL AND BUDGETARY ITEMS: The January 2013 financial statements were accepted as submitted.

LEGISLATIVE AND RULE-MAKING ITEMS: Mr. Brooks reported on legislation (Senate Bills 32, 33, 36, and 37) introduced in the General Assembly that may impact all occupational licensing boards.

NATIONAL ORGANIZATION ITEMS: Messrs. Womble and Kledis moved to nominate Mr. Glover for the position of Director-at-Large on the NASBA Board of Directors for 2013-2014. Motion passed.

Messrs. Womble and Kledis moved to send a Letter of Support for Tyrone E. Dickerson, CPA, of the Virginia Board of Accountancy for the position of Mid-Atlantic Regional Director on the NASBA Board of Directors for 2013-2014. Motion passed.

REPORT OF THE PROFESSIONAL STANDARDS COMMITTEE: Mr. Baldwin moved and the Board approved the following recommendations of the Committee:

Case No. 200602-014 - Carolyn Branan - Messrs. Baldwin and Glover moved to approve the signed Consent Order (Appendix I). Motion passed with five (5) affirmative and zero (0) negative votes.

Case No. C2012390 - Andrew M. Machek - Approve the signed Consent Order (Appendix II).

Case No. C2012284-1 - W. Davis Milligan, CPA, PA - Approve the signed Consent Order (Appendix III). Mr. Baldwin did not participate in the discussion of this matter nor did he vote on this matter.

Case No. C2012319-1 - Henderson, Stafford and Company PA - Approve the signed Consent Order (Appendix IV).

Case No. C2012325 - Julia L. Duriga - Approve the signed Consent Order (Appendix V).

Case No. C2012182-1 and Case No. C2012182-2 - Donald E. Drake and Donald E. Drake, CPA, PC - Messrs. Baldwin and Glover moved to permanently revoke the NC CPA certificate issued to Donald E. Drake (Appendix VI). Motion passed with five (5) affirmative and zero (0) negative votes.

Case No. C2012288-1 - Close the case without prejudice.

Case No. C2012326 - Close the case without prejudice.

REPORT OF THE PROFESSIONAL EDUCATION AND APPLICATIONS COMMITTEE: Ms. Lynch moved and the Board approved the following recommendations of the Committee:

Transfer of Grades Applications - The following were approved:

Thomas Walker Cuffman
Meredith Maxwell Pierce

Rebecca Marie Sherrod

Original Certificate Applications - The following were approved:

Kathryn Godbold Allen
Lindsay Anne Bachner
Tracy Bruce Boorman
Brandon Scott Bracher
Jason Hilton Brett
Stephen Randal Campbell
Thomas Walker Cuffman
Erin Elizabeth Daughtridge
Thomas Jordan Divinnie
Brenda May Eldridge
Holly Burt Embt
Scott Matthew Farkas

Christine Elizabeth Farr
Ashley Clarissa Farrish
Joseph Robert Gaines
Sean Michael Gallina
Cara Grace Gilmore
Michelle Elaine Goslin
Douglas Andrew Hallett
Travis Roland Hammer
Gihan Farid Hanna
Timothy Carl Ebert Hoff
Addison Russell Howard
David Allen Isgett

Jennifer Griffin Jackson
Tamara Johnson
Eunah Kim-Therrell
Christy Mechelle Land
Pamela Michelle Lauchengco
Yan Li
Michael James Lotterhos
Amanda Renee Melton
Ashlyn Brooke Nicholson
Robert Kenelm Parker III
Meredith Maxwell Pierce
Elise Christine Porter

Kathryn Lauren Reddick
Rebecca Marie Sherrod
Keri Nichole Trexler
Emily Rebekah Vargas
Collin Franklin Wagoner
Rachel Kristen Williams
Patricia Marie Wilson
Gary Deters Wize
Qing Yan
Jeffrey Scott Zawicki
David Jon Zukerman

Staff reviewed and recommended approval of the original application submitted by Michael Diego Johansen. Mr. Johansen failed to disclose pertinent information with his exam application but provided it with his certificate application. Staff recommended approval of the application with a one-year probationary period. The Committee approved staff recommendation.

Reciprocal Certificate Applications - The following were approved:

Sarika Agarwal
Daniel A. Bufford
Bonnie Melissa Collins
Cordelia Gbemudu Davis
Donna Gail Reeves Gallagher

Keith Broadus Giddens Jr.
Jason Carter Hall
Michael Sean Ryan
Robert Willard Verbanik
Cynthia Renae Wolfe

Temporary Permits - The following temporary permits were approved by the Executive Director and ratified by the Board:

Timothy Neal Trout T7189
Timothy Charles Hinkle T7190
Jennifer Marie Leary T7191
Elizabeth M. Downer T7192
Richard Lee Rodgers T7193
Ashley Marie Jones T7194
Elizabeth Wright Nichols T7195
Kayla Rose Dierker T7196
Amelia Harra Georgiou T7197
Lisa Arleen Owens-Jackson T7198
Mackenzie Carter Koupal T7199
Beverly Waugh Luke T7200
Kathryn Jean Tucker T7201
Camron Tyler Faulkner T7202

Robert Justin Wilkes Sr. T7203
Joshua Landon Chambers T7204
Yang Ran T7205
Maticia Cotton Sims T7206
Aaron Louis Blackmor T7207
David James McLaughlin T7208
Shannon Yoder T7209
Richard Thomas Ewart T7210
George Garrett Davis II T7246
Erica Deshannon Jones T7247
Michael Edward Koupal T7248
Keri Phifer Cole T7249
Maria Madonna Mapagu T7250
Heather Abigail Williams T7251

Stephen Kenneth Malik T7252
Dennis Crawford McGlory Jr. T7253

Mark Buchheim T7254

Reinstatements - The following were approved:

Deborah Queeney Ellis #22754
Janice Toothaker Gore #20921
Henry Luther Greene III #18544
Linda Rugh Hoffman #12725
Jo Gaskins Holloman #13706
Mary Elizabeth Warren Kilguss #17092

Alisa Delle Moody #20815
Jin Su Park #29923
Jennifer Grace Stevenson #32560
Robert Eric Teague #23776
Peter W. Waring #23482

Reissuance of New Certificate - Applications for reissuance of new certificate submitted by the following were approved.

Charles A. Akpom #35383
Kesha Routh Hall #30695

Terri Graham McKee #23052

Firm Registrations - The professional limited liability company J. Ronald Padrick CPA PLLC was approved by the Executive Director and ratified by the Board.

Retired Status Applications - The Committee approved the following requests for retired status because the individuals are completely retired and do not receive any earned compensation for current personal services in any job whatsoever:

David Carr #14844
William Arthur Haney Jr. #3967

Frederic O. Shackelford #8196

Examinations - The Committee reviewed and approved the following staff approved applicants to sit for the Uniform CPA Examination:

Danielle Abernathy
Justin Allen
Kevin Archer
Lien Bailey
Bruce Baird
Stephen Baity
Briarlee Barrow
Svyatoslav Bashmakov
Amanda Benson
Dexter Blackwell
Amy Bleeker
Matthew Borders

Adam Briones
Ashley Bristow
Kimberly Brown
Maricia Brown
Tiffany Buckelew
Matthew Buckner
Christopher Burke
Paul Burks
Tenita Burton
Joshua Cagle
Betty Cao
Benjamin Carlson

Jamison Carpenter
Huan Chen
Sunshine Chen
Jennifer Cline
Alonzo Cole
Joseph Cook
Raymond Coppedge
David Corn
Ryan Cornell
Jonathan Cothran
Hannah Cranford
Hannah Davis
Monica Davis
Samantha Davis
Raymond Dempsey
Ghassan Dib
Jeffrey Dockins
Ranju Dogra
Matthew Doherty
Kelsey Duncan
Sheldon Early
Gwendolyn Eaton
Catherine Edwards
John Esposito
James Etchells
Nicole Evanger
Sean Feeley
Kendra Ferguson
Mary Fischer
Laura Fisher
Scott Foreman
James Fortenberry
Alexis Gainey
Michael Gerew
Chalice Golden
Arielle Goldenstein
Turiya Gray
Brittany Grow
Charles Gullette
Christopher Hall
Janice Harbour-Marazza
Julie Harman
Tanikya Harmon

Bethany Harris
Elizabeth Harris
Kendell Harris
Marla Harris
Corey Hawley
Ashley Holder
Kyle Hooks
HanWen Hsu
Daniel Hudson
Hong Joon Im
Akiko Iwamoto
Lindsay Johnson
Lori Johnson
Preston Johnson
Shaunte Johnson
Joshua Jones
Matthew Jones
Michael Kahill
Lidiya Kazantsev
Matthew Kennedy
Sharon Kerley
Johnathan Kildosher
Ruth Kinyua
Jennifer Kirts
Justin Knight
Rachel Kraus
Joseph Kurtz
Rachel Landen
Dandan Laubacker
Molly Le
Austin Lee
Brooke Leja
Mary Leonard
Faye Levy
Nicholas Lincoln
Matthew Linder
Tyler Lindsey
Marcus Lockamy
Stuart Long
William Love
Sarah Loving
Travis Lowman
Michael Luistro

Kaleigh Lund
Kelly MacDonald
Layla Manning
Dennis Martin
Zachary Matthews
Brittany Mauldin
Kevin Maxwell
Dananjaya Mayadunne
Kellan McCauley
Aaron McMillan
Sarah McMillan
Dylan McNiff
Robert McPherson
Robert Meador
Avery Medlin
Ashley Middleton
Joshua Minor
Brooke Molineux
Gloria Moore
Hona Moore
Preston Moore
Elizabeth Moy
Kaelyn Mulvey
Jeremy Musgrave
Farah Noameshie
Bradley Nortman
Daniel Nuccio
Edith Onabanjo
Angela Outterbridge
Michael Palmer
Meagan Parrott
Mital Patel
Wendy Pendergraph
Morgan Perry
Ljubica Pilipovic
Andrew Pleasants
Sallie Powell
Sharon Pratto
Lacie Priest
Kun Qian
Justin Quinn
Christina Rabon
Tara Rajani

Renea Reed
Jared Reynolds
Summer Rippey
David Robertson
Alberto Rodriguez
Trisha Sarki
Jonathan Sawyer
Ryan Scanlan
Dorothy Schmitt
Sharon Sharpe
Matthew Shekletski
Chon Shoaf
Kelsey Short
Joseph Simmons
Chelsea Simon
Jared Sink
Misti Skinner
Aaron Smith
Joseph Smith
Tyesha Smoot
Michael Solomon
Kc Spangle
Jeffrey Speanburg
Kristin Stafford
Kira Staggers
Tyler Stallings
Lauren Stechman
Brian Sternecker
Steven Strickland
Angela Stromberger
Lindsey Sutton
Kent Swindlehurst
Dayvon Taliaferro
Julia Taranenko
Nathan Tate
Willie Tate
Apryl Tessener
Matthew Thompson
Robert Tomasula
Linda Torborg
Jamar Turner
Nicki Vaughn
Junyi Wang

Runqing Wang
Stephen Watson
James Wax
Hailey Weaver
Lewkytra Weddington
Charles Wells
Brittany Whitley
John Whitley
Heather Whittington
Blake Wilcox

Ryan Williams
Patrick Willis
Chantel Wilson
Carole Wilson Pesta
Jonathan Wood
Edwin Wotortsi
Melody Yeh
Inja Yoon
Weiqian Zhang

Letters of Warning - Staff received and recommended approval of the request to rescind the letters of warning awarded to the individuals listed below. The Committee approved staff recommendation:

Jackie Lynn Fryt #34433
Lee Sun Gauger #24694
Robert Stephen Goodman #14301

Timothy Park Jones #16750
John William Sapp #23273
Lee-Jane W. Sun #33835

Staff recommended that the Committee determine and accept the grades received for the October - November 2012 exams. Twenty-five files with grade reports were haphazardly selected and reviewed by Board members. The Committee determined and accepted the grades.

PUBLIC HEARING: Vice President Baldwin called the Public Hearing to order to hear Case No. C2011223 - Shannon N. Quon, NC CPA Certificate No. 34450. Mr. Quon was not present at the Hearing nor was he represented by counsel at the Hearing. Mr. Brooks was sworn in and presented testimony. Ms. Lynch and Mr. Glover moved to enter Closed Session without the Executive Staff or Staff Attorney present but with Noel L. Allen, Esq., present to discuss the case. Motion passed. The Board re-entered the Hearing whereupon Messrs. Glover and Kledis moved to approve a Board Order (Appendix VII) revoking for one (1) year, the North Carolina CPA certificate issued to Mr. Quon and assessing a \$1000.00 civil penalty. Motion passed with five (5) affirmative votes and zero (0) negative votes. The entire Public Hearing is a matter of public record.

PUBLIC HEARING: Vice President Baldwin called the Public Hearing to order to hear Case No. C2012136 - Jocelyn G. Merone, NC CPA Certificate No. 31801. Ms. Merone was not present at the Hearing nor was she represented by counsel at the Hearing. Mr. Brooks and Mr. Winslow were sworn in and presented testimony. Ms. Lynch and Mr. Glover moved to approve a Board Order (Appendix VIII) permanently revoking the North Carolina CPA certificate issued to Ms. Merone. Motion passed with four (4) affirmative and one (1) negative vote. The entire Public Hearing is a matter of public record.

PUBLIC HEARING: Vice President Baldwin called the Public Hearing to order to hear Case No. C2012194 – Lyle D. Phipps, NC CPA Certificate No. 35039. Mr. Phipps was present at the Hearing but was not represented by counsel. Mr. Brooks and Mr. Phipps were sworn in and presented testimony. Mr. Kledis and Ms. Lynch moved to enter Closed Session without the Executive Staff or Staff Attorney present but with Noel L. Allen, Esq., present to discuss the case. Motion passed. The Board re-entered the Hearing whereupon Mr. Kledis and Ms. Lynch moved to dismiss the case (Appendix IX). Motion passed with three (3) affirmative votes and two (2) negative votes. The entire Public Hearing is a matter of public record.

ADJOURNMENT: Messrs. Glover and Womble moved to adjourn the meeting at 12:31 pm. Motion passed.

Respectfully submitted:

Attested to by:

Robert N. Brooks
Executive Director

Barton W. Baldwin, CPA
Vice President

NORTH CAROLINA
WAKE COUNTY

BEFORE THE NORTH CAROLINA STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS
CASE #: 200602-014

IN THE MATTER OF:
Carolyn B. Branan, #12966
Respondent

CONSENT ORDER

THIS CAUSE, coming before the North Carolina State Board of CPA Examiners ("Board") at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to N.C. Gen. Stat. § 150B-41, the Board and Respondent stipulate to the following FINDINGS OF FACT:

1. Carolyn B. Branan ("Respondent") was the holder of North Carolina certificate 12966 as a Certified Public Accountant. Respondent changed her North Carolina certificate status to inactive in 2006. She made no further communication, filings, or changes since that time.
2. Respondent, from 1993 through 2002, was the Partner-in-Charge of KPMG, LLP's ("KPMG"), Personal Financial Planning ("PFP") practice for the Southeast region. Following a medical leave, Respondent withdrew from the KPMG partnership, effective March 31, 2005. Respondent asserts that pursuant to that withdrawal, KPMG was to indemnify Respondent for any claims relating to KPMG tax strategies, products, or services from 1997 onward. Respondent withdrew from her partnership and has not maintained any employment activities since that time.
3. Respondent asserts that she was made aware of the Board's concerns and raised the issue with KPMG pursuant to her withdrawal agreement. KPMG, however, refused to offer a defense to these issues notwithstanding its existing indemnification responsibilities to Respondent. Respondent has reviewed the outstanding allegations against KPMG, including those allegations that KPMG consented were true without Respondent's acquiescence yet necessarily involved Respondent. Given that Respondent has not received her promised defense from KPMG, nor did Respondent have an opportunity to object to the factual allegations that were consented to by KPMG, Respondent believes that it would be ineffectual and overly burdensome to respond to the allegations raised by the Board in the absence of KPMG's promised but undelivered defense. As a result, Respondent voluntarily surrenders her CPA certificate as more fully set forth below, and agrees that she will not apply for reissuance, reinstatement or modification of discipline.

4. For the time period from about 1996 through 2002, KPMG developed, implemented, and marketed certain tax shelters including KPMG's Foreign Leveraged Investment Program (1996-1997 KPMG "FLIP", also referred to as "Old-FLIP"), Bond Linked Issue Premium Structure ("BLIPS"), Offshore Portfolio Investment Strategy ("OPIS"), and Short Option Strategy ("SOS"), as well as other variants on those programs (hereinafter the "Tax Shelters"). Such variants included third party solutions, such as PWC's Foreign Leveraged Investment Program (1998-1999 PWC "FLIP", also referred to as "New-FLIP"), where KPMG services included tax return compliance/consulting and tax opinion letter issuance. In all material aspects, KPMG Old-FLIP, PWC New-FLIP, and OPIS were considered by the IRS to be substantially similar for tax purposes.
5. KPMG marketed its Tax Shelters to residents in the State of North Carolina and implemented some of those Tax Shelters on behalf of its North Carolina clients.
6. The portion of KPMG's tax practice that specialized in providing tax advice to individuals, including wealthy individuals, was known as Personal Financial Planning, or "PFP." The national KPMG group focused on designing, marketing, and implementing tax shelters for individual clients was known at different times as CaTS ("Capital Transaction Strategies"), and IS ("Innovative Strategies"), hereafter referred to as "CaTS/IS". KPMG also had a department within the tax practice known as Washington National Tax ("WNT"), which was designed to provide expert tax advice to KPMG professionals in the field, and which participated in designing tax shelters, drafting and issuing opinion letters relating to those shelters.
7. On or about August 26, 2005, KPMG entered into a Deferred Prosecution Agreement ("DPA") with the United States Department of Justice regarding the Tax Shelters.
8. As part of the DPA, KPMG admitted and accepted certain facts that were set forth in a "Statement of Facts" that was appended to the DPA.
9. Per the DPA, KPMG has admitted that "through the conduct of certain KPMG tax leaders, partners, and employees, during the period from 1996 through 2002, KPMG:

Assisted high net worth United States citizens to evade United States individual income taxes on billions of dollars in capital gain and ordinary income by developing, promoting and implementing unregistered and fraudulent tax shelters. A number of KPMG tax partners engaged in conduct that was unlawful and fraudulent,

including: (i) preparing false and fraudulent tax returns for shelter clients; (ii) drafting false and fraudulent proposed factual recitations and representations as part of the documentation underlying the shelters; (iii) issuing opinions that contained those false and fraudulent statements and that purported to rely upon those representations, although the KPMG tax partners and the high net worth individual clients knew they were not true; (iv) actively taking steps to conceal from the IRS these shelters and the true facts regarding them; and (v) impeding the IRS by knowingly failing to locate and produce all documents called for by IRS summonses and misrepresenting to the IRS the nature and extent of KPMG's role with respect to certain tax shelters."

10. On February 20, 2012, KPMG entered into a Consent Agreement with the Board regarding the firm's involvement with the Tax Shelters.
11. While employed at KPMG's Charlotte office, and in reliance on KPMG's vetting/approval of Tax Shelters, registration decisions, and tax return reporting through national CaTS/IS group, Respondent was involved in the sale and implementation of numerous Tax Shelters for at least eight clients.
12. In her role as Partner, and in reliance on KPMG's vetting/approval of Tax Shelters, registration decisions, and tax return reporting through CaTS/IS group, Respondent supervised the preparation and signing of tax returns by KPMG's senior managers for clients who took advantage of the favorable tax consequences allowed by the Tax Shelters. Throughout this process, Respondent and senior managers followed directions of KPMG Tax Shelters practice groups including International Tax practice and CaTS/IS groups with respect to such income tax return reporting. Respondent was never a member of those groups.
13. In her role as Partner-in-Charge of PEP for the Southeast region, for administrative purposes, several Partners reported to Respondent in her role as Partner-in-Charge for the Southeast region. Some of those Partners also simultaneously served in the CaTS/IS group, which independently functioned outside her involvement and review. Members of the CaTS/IS group were involved in certain activities included in DPA "Statement of Facts" as described in paragraph 9 above.
14. Respondent personally signed on behalf of the firm as instructed by KPMG at least five opinion letters verifying that there was a greater than 50% likelihood (*i.e.*, that it was more likely than not) that the favorable tax consequences promised from a Tax Shelter transaction would be upheld if challenged by the IRS. ("Opinion Letters") Those Opinion Letters included at least three Old-FLIP,

one OPIS, and one BLIPS transactions. The Opinion Letters were drafted and approved by KPMG at a national level, but Respondent had neither influence upon nor a role in the preparation of those letters other than to execute same as instructed by KPMG.

15. Other Southeast region PFP Partners, who simultaneously served on the national CaTS/IS group, including William "Sandy" Spitz, (hereinafter "Southeast Region Partners") signed at least an additional four Old-FLIP Opinion Letters and one OPIS Opinion Letter. The execution of these letters was outside the scope of Respondent's involvement and review.
16. In November 1997, the national CaTS/IS group informed PFP Partners, including Respondent and Southeast Region Partners, that Old-FLIP should not be marketed for new transactions, but that transactions for which investments had been initiated prior to that date should continue to be implemented. Specifically, the CaTS/IS group explained that the PFP Partners should await the approval of KPMG OPIS as a replacement for its clients. Respondent asserts that, at no time during the 1996 through 2002 period, did KPMG disclose to Respondent that private internal email discussions among KPMG decision makers were questioning the economic substance of the Old-FLIP transactions, its return reporting, its registration decision, KPMG issuance of tax opinion letters, and whether KPMG should unwind the transactions and return client fees.
17. According to a report created by the U.S. Senate Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, KPMG worked with both Presidio Advisors ("Presidio" also referred to in Department of Justice indictments as Pfaff/Larson entities) and Quadra Capital Management LLP ("Quadra") (also doing business as Quellos or QA Investments) as investment advisory firms participating directly in the FLIP, OPIS, or BLIPS transactions.
18. KPMG did not register Old-FLIP. Respondent was not involved in making this decision. During 1998, Price WaterhouseCoopers ("PWC") developed a differently structured Foreign Leveraged Investment Program transaction ("New-FLIP") executed through Quadra. This 1998 PWC "New-FLIP" was made available to First Union for its clients. Some of these clients were referred to a PFP Partner who served on both First Union National Account Client Service Team and on the CaTS/IS group, for various CaTS/IS tax shelter transaction services. On June 1, 1998, Quadra registered New-FLIP as a tax shelter with the United States Secretary of the Treasury. Ultimately, when Quadra was asked to provide a list of all investors who had executed "New-FLIP" or similar transactions, it provided names of all taxpayers that had executed "New-FLIP", "Old-FLIP", and OPIS through Quadra. Thereafter, all taxpayers who had

executed any of these transactions (either through KPMG or PWC, through Presidio or Quadra) were offered an IRS global settlement with respect to those transactions. Substantially all taxpayers accepted that settlement.

19. On June 8, 1998, seven days following Quadra's registration of New-FLIP, Respondent personally signed two Old-FLIP Opinion Letters. Respondent asserts that she did not know at the time that New-FLIP had been registered as a tax shelter. Other KPMG Partners, including Southeast Region CaTS/IS Partners, continued to sign Old-FLIP Opinion Letters for the remainder of 1998. In addition, CaTS/IS group drafted, approved, issued, and signed KPMG Opinion Letters for "New-FLIP" developed by PWC and registered as a tax shelter for 1998 and 1999 transactions. All Opinion Letters drafted, approved, and issued by KPMG through the CaTS/IS group were not permitted to be changed by the local office Partner who was instructed to sign such Opinion Letters on behalf of the firm.
20. On June 25, 1998, Respondent received an email from Gregg Ritchie, Partner-in-Charge of the CaTS/IS group, indicating that New-FLIP had been registered. Mr. Ritchie requested that Respondent verify whether this was true. Respondent contacted Larry Scheinfeld (former KPMG Partner) at Quadra in New York and reported back that Quadra had in fact registered New-FLIP but had not registered Old-FLIP. Respondent indicated Mr. Scheinfeld understood from Mr. Ritchie that KPMG believed they would be registering OPIS. At that time, KPMG OPIS was still in review, and was not approved until late September 1998. The registration decision was determined and announced prior to September 1998.
21. Southeast region Partners signed, or supervised senior managers who signed, 1997 tax returns in 1998, claiming the favorable tax benefits of Old-FLIP. Such activities were directed and controlled by the national CaTS/IS group. Southeast region Partners also signed, or supervised senior managers who signed, 1998 tax returns in 1999, claiming the favorable tax benefits of the now-registered "New-FLIP."
22. In June 1998, the CaTS/IS Group sent emails to members of its group (including at least one partner and senior manager in the Southeast region) regarding the marketing materials for the OPIS product. Respondent asserts that she was not part of this group and was not permitted access to these materials. That correspondence provided:

Please be reminded that you should NOT leave this material with clients or targets under any circumstances. Not only will this unduely [sic] harm our ability to keep the product confidential, it

will DESTROY any chance the client may have to avoid the step transaction doctrine.

The "step transaction doctrine" has been expressly sanctioned by the United States Supreme Court which provides that federal tax liability may be based upon a realistic view of an entire transaction. As such, interrelated, yet formally distinct, steps in an integrated transaction may not be considered independently of the overall transaction. See *Commissioner of Internal Revenue v. Clark*, 489 U.S. 726, 739 (1989).

23. On December 31, 1998, Respondent signed, on behalf of KPMG, an Opinion Letter for an OPIS client which, among other things, assured the client that the OPIS strategy did not trigger analysis under the step transaction doctrine. Respondent asserts that she was unaware of the email described in the foregoing paragraph at the time she signed the Opinion Letter.
24. In January 1999, CaTS/IS Group members received an email from a partner of KPMG's Washington National Tax (WNT) Practice in which that partner plainly stated, "I believe we are filing misleading, and perhaps false, returns by taking this reporting position." Such position referred to use of grantor trust designed to hide tax gains and losses without disclosing them in the individual clients' tax returns. Respondent asserts that she did not receive such email or have knowledge that other Partners were using such a technique until revealed during KPMG investigations. The author of the above email, as well as certain members of the CaTS/IS Group that utilized such technique or approved it with knowledge of the advice that it could be fraudulent or criminal, were indicted in 2005 after the KPMG DPA was signed.
25. In September 2000, the IRS issued Notice 2000-44 which identify the strategies like the BLIPS strategy as an abusive tax shelter that is not eligible for the favorable tax consequences promised by KPMG.
26. Following issuance of Notice 2000-44, certain CaTS/IS Group Partners located in the Southeast region, or senior managers supervised by them, signed tax returns for clients claiming the favorable tax consequences promised initially by KPMG. Respondent had one BLIPS client. The Opinion Letter for that client was signed and tax returns filed by April 15, 2000, prior to the issuance of Notice 2000-44.
27. Respondent and other personnel at KPMG were aware that the Tax Shelters were regarded within KPMG CaTS/IS Group as risky strategies. Nevertheless, she and other Partners and senior managers continued to market and implement the strategies despite those perceived risks. KPMG vetted these tax strategies at decision making levels above Respondent and continued to assure tax partners

such as Respondent that these strategies, while risky, were more likely than not to qualify as legitimate tax strategies.

28. While employed at KPMG, Respondent confirms that:

- a. The Tax Shelters were marketed by KPMG personnel, including herself, Southeast Region Partners, and other national CaTS/IS Partners and senior managers, as a way to, among other things, reduce clients' taxes.
- b. KPMG personnel, including Southeast region Partners, other national CaTS/IS Partners and senior managers, presented the Tax Shelters to clients as a complete package.
- c. CaTS/IS Partners and senior managers informed clients they should keep the details of the Tax Shelters confidential and discouraged sharing information with third parties such as their own attorneys or outside CPAs. In at least two instances, Respondent declined to provide information to other Big Four accounting firms who were competitors.
- d. Tax Shelter presentation materials were collected by KPMG CaTS/IS Partners and senior managers following presentations made to clients to preserve confidentiality and arguments regarding the step transaction doctrine.
- e. Partners and senior managers in the Southeast region were instructed by CaTS/IS Group Partners to claim favorable tax consequences for clients on their tax returns based upon Old-FLIP transactions, even after learning New-FLIP transactions (later considered along with KPMG OPIS to be substantially similar for tax purposes) had been registered by Quadra, and after KPMG had decided to cease marketing of KPMG "Old-FLIP" strategy for transactions initiated after 1997.
- f. KPMG provided its tax partners with Opinion Letters verifying that it was "more likely than not" that the Tax Shelters would withstand IRS scrutiny. These Opinion Letters were premised upon certain assumed facts. The assumed facts provided to the partners were pre-printed in the Opinion Letters. Local KPMG tax partners were not allowed to change the facts in the Opinion Letters. Respondent signed one or more such Opinion Letters.

- g. On at least one occasion, CaTS/IS Group Partners or senior managers presented clients with Opinion Letters that contained assumed facts that were not true.

29. Respondent acknowledges that KPMG agreed that its marketing and implementation of the Tax Shelters, and execution of the aforementioned Opinion Letters constituted a failure to provide their clients with competent tax guidance. Respondent had no involvement in the design, vetting or approval of the Tax Shelters and did not draft the Opinion Letters or make decisions regarding the registration of those Tax Shelters. She asserts that, although she was involved in the marketing and implementation of the Tax Shelters, that involvement did not impact the conclusion that KPMG clients failed to receive competent tax guidance.
30. Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Consent Order with the Board *ex parte*, whether or not the Board accepts this Consent Order as written. Respondent understands and agrees that this Consent Order is subject to review and approval by the Board and is not effective until approved by the Board at a duly constituted Board Meeting.

Based upon the foregoing findings, the Board makes the following CONCLUSIONS OF LAW:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes and Title 21, Chapter 8 of the North Carolina Administrative Code, including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
2. Although KPMG issued the tax opinion letters that were signed by Respondent and Respondent had neither any influence on nor any involvement in the formation of those tax opinion letters, Respondent recognizes that her participation in the marketing and implementation of the Tax Shelters, and her execution of those tax opinion letters on behalf of KPMG contributed to the failure to provide her clients with competent tax guidance in violation of 21 NCAC 08N.0212(b).
3. Per N.C. Gen. Stat. § 93-12(9) and also by virtue of Respondent's consent, in lieu of an administrative proceeding, the Board and Respondent have agreed to the terms of this Consent Order.

Consent Order - 9
Branan, Carolyn B.

BASED on the foregoing and in lieu of further proceedings, the Board and Respondent agree to the following Order:

1. Respondent voluntarily surrenders her North Carolina CPA certificate without the ability to apply for reissuance, reinstatement, or modification of discipline. As such, Respondent shall not offer or render services as a CPA or otherwise trade upon or use the CPA title in this State whether through CPA mobility provisions or substantial equivalency practice privileges or in any other manner.
2. Respondent waives any rights, privileges, or protections that may be afforded by 21 NCAC 08J .0106, 08I .0104, or N.C. Gen. Stat. § 93-10.

CONSENTED TO THIS THE 1ST DAY OF February, 2013

Carolyn B. Branan
Carolyn B. Branan

APPROVED BY THE BOARD THIS THE 25 DAY OF FEBRUARY, 2013

NORTH CAROLINA STATE BOARD OF CERTIFIED
PUBLIC ACCOUNTANT EXAMINERS



BY: Paul W. Bell
Vice-President

NORTH CAROLINA
WAKE COUNTY

BEFORE THE NORTH CAROLINA STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS

CASE #: C2012390

IN THE MATTER OF:
Andrew M. Machek, #35358
Respondent

CONSENT ORDER

THIS CAUSE, coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to N.C. Gen. Stat. § 150B-41, the Board and Respondent stipulate to the following Findings:

1. Respondent is the holder of North Carolina certificate number 35358 as a Certified Public Accountant.
2. Respondent informed the Board on his 2012-2013 individual certificate Renewal ("Renewal") that between January 1, 2011, and December 31, 2011, he had obtained forty (40) hours of continuing professional education ("CPE"), had completed the annual approved ethics CPE course, and had completed at least two (2) hours of ethics to meet the 2011 CPE requirements.
3. Based on Respondent's representation, the Board accepted his Renewal.
4. Board staff requested that Respondent provide certificates of completion for the CPE reported to meet his 2011 requirements.
5. Respondent provided documentation for all of the 70.5 hours of 2011 CPE he claimed on his 2012-2013 Renewal, as requested. However, Respondent provided a certificate of completion documenting just one and one-half (1.5) hours of ethics CPE, one-half (0.5) hour short of the requirement. Respondent asserted that he completed the ethics course required by his employer "under the impression that its purpose was to satisfy [Respondent's] Ethics CPE requirement," and that he believed the course carried four (4) hours of CPE credit.
6. Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Consent Order with the Board *ex parte*, whether or not the Board accepts this Consent Order as written. Respondent understands and agrees that this Consent Order is subject to

review and approval by the Board and is not effective until approved by the Board at a duly constituted Board meeting.

BASED upon the foregoing, the Board makes the following Conclusions of Law:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes and Title 21, Chapter 08 of the North Carolina Administrative Code, including the Rules of Professional Ethics and Conduct promulgated and adopted herein by the Board.
2. Respondent is personally responsible for ensuring that he completed all CPE requirements. Although he did not know that the representations made on his Renewal were false, he has violated the Board's rules because he should have independently verified that his hours were correct before submitting them to the Board. As such, Respondent violated 21 NCAC .0202(a) and .0202(b)(4), which prohibit, among other things, representations in the reporting of CPE credits, which the CPA should have known had the capacity or tendency to deceive.
3. Per N.C. Gen. Stat. § 93-12(9) and also by virtue of Respondent's consent to this Order, Respondent is subject to the discipline set forth below.

BASED on the foregoing and in lieu of further proceedings, the Board and Respondent agree to the following Consent Order:

1. Respondent's application for Renewal is deemed insufficient and untimely. Respondent's certificate is therefore automatically forfeited pursuant to N.C. Gen. Stat. § 93-12(15).
2. Respondent must return his certificate to the Board within fifteen (15) days of Respondent's receipt of the Board's notification of its approval of this Consent Order.
3. Respondent may apply for the reissuance of his certificate after one (1) year from the date the Board approves this Consent Order and if Respondent's certificate and the civil penalty required in number five (5) of this Order have been timely received by the Board.
4. Respondent may apply to return his certificate to active status by submission and approval of a reissuance application which includes:
 - a. Application form,

Consent Order -3
Andrew M. Machek

- b. Payment of the application fee,
 - c. Three (3) moral character affidavits, and
 - d. Forty (40) hours of CPE in the twelve (12) months preceding the application including an eight (8) hour accountancy law course as offered by the North Carolina Association of CPAs in a group-study format.
5. Respondent shall pay a one thousand dollar (\$1,000.00) civil penalty to be remitted to the Board prior to submitting a reissuance application.
6. Respondent agrees that failure to timely comply with any terms of this agreement and Consent Order shall be deemed sufficient grounds for revocation of his certificate.

CONSENTED TO THIS THE 22 DAY OF January, 2013.

Andrew Machek
Respondent

APPROVED BY THE BOARD THIS THE _____ DAY OF _____, 2013.

NORTH CAROLINA STATE BOARD OF CERTIFIED
PUBLIC ACCOUNTANT EXAMINERS



BY: _____
President

NORTH CAROLINA
WAKE COUNTY

BEFORE THE NORTH CAROLINA STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS
CASE #: C2012284-1

IN THE MATTER OF:
W. Davis Milligan, CPA, PA
Respondent

CONSENT ORDER

THIS CAUSE, coming before the North Carolina State Board of CPA Examiners ("Board") at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to N. C. Gen. Stat. § 150B-41, the Board and the Respondent stipulate to the following:

1. Respondent W. Davis Milligan, CPA, PA (hereinafter "Respondent firm"), is a registered certified public accounting corporation in North Carolina.
2. Respondent firm received a "fail" on its most recent engagement peer review, with an acceptance letter date of March 8, 2012.
3. Per 21 NCAC 08M .0106, for all failed and second passed with deficiencies reports, Respondent firm was required to submit to the Board a package to include the Peer Review Report, Letter of Response, and Final Letter of Acceptance.
4. Respondent firm provided only a Final Letter of Acceptance to the Board.
5. Respondent firm wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Consent Order with the Board *ex parte*, whether or not the Board accepts this Consent Order as written. Respondent firm understands and agrees that this Consent Order is subject to review and approval by the Board and is not effective until approved by the Board at a duly constituted Board Meeting.

BASED upon the foregoing, the Board makes the following Conclusions of Law:

1. Respondent firm is subject to the provisions of Chapter 93 of the North Carolina General Statutes and Title 21, Chapter 08 of the North Carolina



Administrative Code, including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.

2. Respondent firm's failure to submit to the Board copies of its Peer Review Report and Letter of Response within 60 days of the date of the Final Letter of Acceptance constitutes a violation of 21 NCAC 08M .0106(a)(4).
3. By virtue of Respondent firm's consent to this order, Respondent firm is subject to the discipline set forth below.

BASED on the foregoing and in lieu of further proceedings, the Board and Respondent firm agree to the following Order:

1. Respondent firm is censured.
2. Respondent firm shall pay a one thousand dollar (\$1,000.00) civil penalty to be remitted with this signed Consent Order.
3. Respondent firm's professional staff shall take at least eight (8) hours of Accounting and Auditing CPE coursework as part of their annual CPE requirement until such time as Respondent firm receives a pass on a system peer review or a pass or a pass with deficiencies on an engagement peer review.

CONSENTED TO THIS THE 6th DAY OF February, 2013.

W. Davis Milligan
Individual authorized to sign on behalf of Respondent Firm

APPROVED BY THE BOARD THIS THE _____ DAY OF _____, 2013.

NORTH CAROLINA STATE BOARD OF CERTIFIED
PUBLIC ACCOUNTANT EXAMINERS



BY: _____
President



NORTH CAROLINA – BEFORE THE NORTH CAROLINA STATE BOARD OF
WAKE COUNTY CERTIFIED PUBLIC ACCOUNTANT EXAMINERS
CASE #: C2012319-1

IN THE MATTER OF:
Henderson, Stafford & Company, PA
Respondent

CONSENT ORDER

THIS CAUSE, coming before the North Carolina State Board of CPA Examiners ("Board") at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to N. C. Gen. Stat. § 150B-41, the Board and Respondent stipulate to the following:

1. Respondent Henderson, Stafford & Company, PA (hereinafter "Respondent firm"), is a registered certified public accounting corporation in North Carolina.
2. Respondent firm received a "fail" on its most recent engagement peer review, with an acceptance letter date of June 19, 2012.
3. Per 21 NCAC 08M .0106, for all failed and second passed with deficiencies reports, Respondent firm was required to submit to the Board a package to include the Peer Review Report, Letter of Response, and Final Letter of Acceptance.
4. Respondent firm provided only a Final Letter of Acceptance to the Board.
5. Respondent firm wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Consent Order with the Board *ex parte*, whether or not the Board accepts this Consent Order as written. Respondent firm understands and agrees that this Consent Order is subject to review and approval by the Board and is not effective until approved by the Board at a duly constituted Board Meeting.

BASED upon the foregoing, the Board makes the following Conclusions of Law:

1. Respondent firm is subject to the provisions of Chapter 93 of the North Carolina General Statutes and Title 21, Chapter 08 of the North Carolina



Consent Order - 2
Henderson, Stafford & Company, PA

Administrative Code, including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.

2. Respondent firm's failure to submit to the Board copies of its Peer Review Report and Letter of Response constitutes a violation of 21 NCAC 08M .0106(a)(4).
3. By virtue of Respondent firm's consent to this order, Respondent firm is subject to the discipline set forth below.

BASED on the foregoing and in lieu of further proceedings, the Board and Respondent firm agree to the following Order:

1. Respondent firm is censured.
2. Respondent firm shall pay a one thousand dollar (\$1,000.00) civil penalty to be remitted with this signed Consent Order.
3. Respondent firm's professional staff shall take at least eight (8) hours of Accounting and Auditing CPE coursework as part of their annual CPE requirement until such time as Respondent firm receives a pass on a system peer review, or a pass or pass with deficiencies on an engagement peer review.

CONSENTED TO THIS THE 28th DAY OF January, 2013.

Danita Henderson

Individual authorized to sign on behalf of Respondent Firm

APPROVED BY THE BOARD THIS THE _____ DAY OF _____, 2013.

NORTH CAROLINA STATE BOARD OF CERTIFIED
PUBLIC ACCOUNTANT EXAMINERS



BY: _____
President



NORTH CAROLINA
WAKE COUNTY

BEFORE THE NORTH CAROLINA STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS
CASE #: C2012325

IN THE MATTER OF:
Julie L. Duriga, #32253
Respondent

CONSENT ORDER

THIS CAUSE, coming before the North Carolina State Board of CPA Examiners ("Board") at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to N. C. Gen. Stat. § 150B-41, the Board and the Respondent stipulate to the following:

1. Respondent Julie L. Duriga (hereinafter "Respondent") is the holder of North Carolina certificate number 32253 as a Certified Public Accountant.
2. At all relevant times, Respondent was the sole shareholder and CPA employee of Julie L. Duriga, CPA, Inc. ("Firm"), and was responsible for its operations.
3. Respondent's Firm received a "fail" on its most recent system peer review, with an acceptance letter date of August 26, 2009.
4. Respondent submitted a copy of the peer review acceptance letter to the Board on September 1, 2009.
5. Per 21 NCAC 08M .0106, for all failed and second passed with deficiencies reports, Respondent's Firm was required to submit to the Board a Peer Review Report, Letter of Response, and Final Letter of Acceptance.
6. However, on September 1, 2009, Respondent, on behalf of the Firm, only submitted a copy of the peer review acceptance letter to the Board. Respondent asserts that her failure to provide the peer review report and letter of response was inadvertent.
7. In January of 2010, Respondent's Firm was dissolved by the North Carolina Secretary of State's office.



Consent Order - 2
Julie L. Duriga

8. Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Consent Order with the Board *ex parte*, whether or not the Board accepts this Consent Order as written. Respondent understands and agrees that this Consent Order is subject to review and approval by the Board and is not effective until approved by the Board at a duly constituted Board Meeting.

BASED upon the foregoing, the Board makes the following Conclusions of Law:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes and Title 21, Chapter 08 of the North Carolina Administrative Code, including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
2. Respondent's failure to submit to the Board copies of Respondent's Firm's Peer Review Report and Letter of Response constitutes a violation of 21 NCAC 08M .0106(a)(4) and 08N .0213.
3. By virtue of Respondent's consent to this order, Respondent is subject to the discipline set forth below.

BASED on the foregoing and in lieu of further proceedings, the Board and Respondent agree to the following Order:

1. Respondent is censured.
2. Respondent shall provide a written statement to the Board that she will no longer be participating in, performing, or reviewing any engagements requiring peer review.
3. Prior to Respondent participating in, performing, or reviewing any engagements requiring peer review as an owner, partner, manager, or supervisor, Respondent shall be required to provide the Board with proof of the following:
 - a. Completion of a minimum of eight (8) hours of SSARS CPE;
 - b. Completion of a minimum of sixteen (16) hours of Audit Documentation CPE;



Consent Order - 3
Julie L. Duriga

- c. Completion of a minimum of sixteen (16) hours of Risk Based Audit Standards CPE;
 - d. Access to an appropriate library with materials sufficient for engagements to be performed;
 - e. Pre-issuance reviews, to be performed by a pre-issuance reviewer approved by the Board, for all peer review engagements until determination is made by the Board that said engagements can be performed by the Respondent in accordance with applicable standards; and
 - f. Completion of eight (8) hours of Accounting and Auditing CPE coursework as part of the Respondent CPA's annual CPE requirements once she has begun participating in, performing, or reviewing any engagements requiring peer review until such time as the firm receives a pass on a system peer review, or a pass or pass with deficiencies on an engagement peer review.
4. Respondent shall pay a one thousand dollar (\$1,000.00) civil penalty to be remitted within six (6) months of the Board's acceptance of this signed Consent Order.

CONSENTED TO THIS THE 6th DAY OF February, 2013

Julie L. Duriga
Respondent

APPROVED BY THE BOARD THIS THE _____ DAY OF _____, 2013.

NORTH CAROLINA STATE BOARD OF CERTIFIED
PUBLIC ACCOUNTANT EXAMINERS



BY: _____
President



NORTH CAROLINA
WAKE COUNTY

BEFORE THE NORTH CAROLINA STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS
CASE #s: C2012182-1 and C2012182-2

IN THE MATTER OF:
Donald E. Drake, #28635
Donald E. Drake, CPA, P.C.
Respondents

CONSENT ORDER

THIS CAUSE, coming before the North Carolina State Board of CPA Examiners ("Board") at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to N. C. Gen. Stat. § 150B-41, the Board and Respondents stipulate to the following:

1. Donald E. Drake (hereinafter "Respondent Drake") is the holder of North Carolina certificate number 28635 as a Certified Public Accountant.
2. Respondent Donald E. Drake, CPA, P.C. (hereinafter "Respondent Firm"), is a registered certified public accounting professional corporation in North Carolina. Respondent Drake is the sole owner of Respondent Firm and has been individually responsible for the conduct of Respondent Firm.
3. In March of 2012, the Internal Revenue Service ("IRS") filed a tax lien against Respondent firm for failure to file and insure payment of 940 and 941 monies totaling \$7,117.80.
4. In September of 2012, the IRS filed a second tax lien against Respondent firm for failure to file and insure payment of 941 monies totaling \$1,781.88.
5. According to the IRS account transcripts, Respondents failed to pay 941 taxes for nine (9) quarters during the years 2008 through 2011. Additionally, Respondents were late in paying 941 taxes for two (2) additional quarters during that period.
6. The IRS account transcripts also show that Respondents were late to file the 941 returns for the quarters ending September 2010, December 2010, and September 2011.



Consent Order - 2
Donald E. Drake
Donald E. Drake, CPA, P.C.

7. Respondents wish to resolve these matters by consent and agree that the Board staff and counsel may discuss this Consent Order with the Board *ex parte*, whether or not the Board accepts this Consent Order as written. Respondents understand and agree that this Consent Order is subject to review and approval by the Board and is not effective until approved by the Board at a duly constituted Board Meeting.

BASED upon the foregoing, the Board makes the following Conclusions of Law:

1. Respondents are subject to the provisions of Chapter 93 of the North Carolina General Statutes and Title 21, Chapter 8 of the North Carolina Administrative Code, including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
2. Respondents' actions as set out above constitute violations of 21 NCAC 08N .0201, .0203(a), and 0207.
3. Per N.C. Gen. Stat. § 93-12(9) and also by virtue of Respondents' consent to this order, Respondents are subject to the discipline set forth below.

BASED on the foregoing and in lieu of further proceedings, the Board and Respondents agree to the following Order:

1. The Certified Public Accountant certificate issued to Respondent Donald E. Drake is hereby permanently revoked.
2. The firm registration for Respondent Firm, Donald E. Drake, CPA, P.C., is hereby cancelled.
3. Respondents shall not offer or render services as a CPA or CPA firm or otherwise trade upon or use the CPA title in this state either through CPA mobility provisions or substantial equivalency practice privileges or in any other manner, nor shall Respondents claim or attempt to use any practice privileges in any other state based upon Respondent Drake's permanently revoked North Carolina certificate or Respondent Firm's canceled CPA firm registration.

CONSENTED TO THIS THE 1st DAY OF February, 2013.



Consent Order - 3
Donald E. Drake
Donald E. Drake, CPA, P.C.

Donald E. Drake
Respondent

Donald E. Drake
Individual authorized to sign on behalf of Respondent Firm

APPROVED BY THE BOARD THIS THE _____ DAY OF _____,
2013.

NORTH CAROLINA STATE BOARD OF CERTIFIED
PUBLIC ACCOUNTANT EXAMINERS



BY: _____
President



NORTH CAROLINA
WAKE COUNTY

BEFORE THE NORTH CAROLINA STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS
Case: #C2011223

IN THE MATTER OF:
Shannon Noel Quon, #34450
Respondent

BOARD ORDER

THIS CAUSE coming before the North Carolina State Board of Certified Public Accountant Examiners ("Board") at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, at a public hearing ("Hearing"), with a quorum present, the Board finds, based on the evidence presented at the Hearing on February 25, 2013, that:

FINDINGS OF FACT

1. Respondent Shannon Noel Quon (hereinafter "Respondent") is the holder of a certificate as a Certified Public Accountant in North Carolina.
2. The Board has jurisdiction over Respondent and the subject matter of this action.
3. Respondent received at least fifteen (15) days written Notice of Hearing of this matter by personal service, certified mail, or other approved personal delivery.
4. Venue is proper and the Hearing was properly held at 1101 Oberlin Road, Raleigh, North Carolina.
5. Respondent did not object to any Board Member's participation in the Hearing of this matter.
6. Respondent was not present at the Hearing and was not represented by counsel.
7. Respondent informed the Board on his 2010-2011 individual certificate renewal ("Renewal") that between January 1, 2009, and June 30, 2010, he had obtained forty (40) hours of continuing professional education ("CPE"), had completed the annual approved ethics CPE course, and had

completed at least eight (8) hours of non-self-study CPE to meet the 2009 CPE requirements.

8. Based on Respondent's representation, the Board accepted his Renewal.
9. Board staff requested that Respondent provide certificates of completion for the CPE reported to meet his 2009 CPE requirements.
10. Respondent failed to provide the certificate or certificates of completion needed to document completion of an annual ethics CPE course that Respondent claimed he earned between January 1, 2009, and June 30, 2010, as was reported on his Renewal.

CONCLUSIONS OF LAW

1. Per N.C. Gen. Stat. § 150B-42, this Board Order constitutes a Final Agency Decision of the Board.
2. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes and Title 21, Chapter 08 of the North Carolina Administrative Code (NCAC). Pursuant to N.C. Gen. Stat. § 93-12(9), the Board has the authority to impose discipline upon the Respondent and Respondent's certificate and to impose civil monetary penalties.
3. Respondent's actions as set out above constitute violations of 21 NCAC 08N .0202(a), and .0202(b)(4).

BASED ON THE FOREGOING, the Board orders in a vote of 5 to 0 that:

1. The Certified Public Accountant certificate issued to Respondent Shannon Noel Quon is revoked for a period of one (1) year from the date of this Order.
2. Respondent shall, upon receipt of this Order, immediately remit to the Board a one thousand dollar (\$1,000.00) civil penalty.

Board Order - 3
Shannon Noel Quon

This the 25th day of February 2013.



NORTH CAROLINA STATE BOARD OF CERTIFIED
PUBLIC ACCOUNTANT EXAMINERS

BY: *Paul W. Baker*
Vice-President

NORTH CAROLINA
WAKE COUNTY

BEFORE THE NORTH CAROLINA STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS
Case: #C2012136

IN THE MATTER OF:
Jocelyn Merone, #31801
Respondent

BOARD ORDER

THIS CAUSE coming before the North Carolina State Board of Certified Public Accountant Examiners ("Board") at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, at a public hearing ("Hearing"), with a quorum present, the Board finds, based on the evidence presented at the Hearing on February 25, 2013, that:

FINDINGS OF FACT

1. Respondent Jocelyn Merone (hereinafter "Respondent") is the holder of a certificate as a Certified Public Accountant in North Carolina.
2. The Board has jurisdiction over Respondent and the subject matter of this action.
3. Respondent received at least fifteen (15) days through notice of Hearing of this matter by personal service, certified mail, or other approved personal delivery, such as notice by publication as allowed by N.C. Gen. Stat. § 1a, Rule 4(j1).
4. Venue is proper and the Hearing was properly held at 1101 Oberlin Road, Raleigh, North Carolina.
5. Respondent did not object to any Board Member's participation in the Hearing of this matter.
6. Respondent was not present and was not represented by counsel.
7. Respondent informed the Board on her 2011-2012 individual certificate renewal ("Renewal") that she had obtained forty (40) hours of

continuing professional education ("CPE"), had completed an annual approved ethics CPE course, and had completed at least eight (8) hours of non-self-study CPE to meet the 2010 CPE requirements.

8. Based on Respondent's representation, the Board accepted her Renewal.
9. Board staff requested that Respondent provide certificates of completion for the CPE reported to meet her 2010 CPE requirements.
10. Respondent failed to provide the certificate or certificates of completion needed to document any of the CPE that Respondent claimed she earned between January 1, 2010, and December 31, 2010, as was reported on her Renewal.

CONCLUSIONS OF LAW

1. Per N.C. Gen. Stat. § 150B-42, this Board Order constitutes a Final Agency Decision of the Board.
2. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes and Title 21, Chapter 08 of the North Carolina Administrative Code (NCAC). Pursuant to N.C. Gen. Stat. § 93-12(9), the Board has the authority to impose discipline upon the Respondent and Respondent's certificate and to impose civil monetary penalties.
3. Respondent's actions as set out above constitute violations of 21 NCAC 08N .0202(a) and .0202(b)(4).

BASED ON THE FOREGOING, the Board orders in a vote of _____ to _____ that:

1. The Certified Public Accountant certificate issued to Respondent Jocelyn Merone is hereby permanently revoked.
2. Respondent shall not offer or render services as a CPA or otherwise trade upon or use the CPA title in this State, either through CPA

Board Order - 3
Jocelyn Merone

mobility provisions or substantial equivalency practice privileges or in any other manner, nor shall Respondent claim or attempt to use any practice privileges in any other state based upon the permanently revoked North Carolina certificate.

This the 25th day of February 2013.



NORTH CAROLINA STATE BOARD OF CERTIFIED
PUBLIC ACCOUNTANT EXAMINERS

BY: _____
Vice-President

NORTH CAROLINA
WAKE COUNTY

BEFORE THE NORTH CAROLINA STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS
CASE #: C2012194

IN THE MATTER OF:
Lyle Phipps, #35039
Respondent

BOARD ORDER

THIS CAUSE coming before the North Carolina State Board of Certified Public Accountant Examiners (the "Board") at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, at public hearing, with a quorum present, on February 25, 2013, the Board dismissed the matter by a vote of 3 to 2.

This the 25th day of February 2013.



NORTH CAROLINA STATE BOARD OF CERTIFIED
PUBLIC ACCOUNTANT EXAMINERS

BY: Barton W. Phipps
Vice-President

Financial Highlights
For the Eleven Months Period Ended February 28, 2013
Compared to the Eleven Months Period Ended February 28, 2012

	Budget Var.	Feb-13	Feb-12	Inc. (Dec.)
Total Revenue	-\$99,519.35	\$ 2,616,320.37	\$ 2,662,291.69	\$ (45,971.32)
■ Total Operating Revenue	-\$96,366.42	\$ 2,563,456.67	\$ 2,621,144.54	\$ (57,687.87)
❖ Total Net Non Operating Revenue	-\$3,152.93	\$ 52,863.70	\$ 41,147.15	\$ 11,716.55
○ Total Expenses	-\$212,480.21	\$ 2,413,291.56	\$ 2,276,488.38	\$ 136,803.18
Increase(Dec.) Net Assets for Period		\$ 203,028.81	\$ 385,803.31	\$ (182,774.50)
Total Checking and Savings		\$ 223,590.87	\$ 282,977.15	\$ (59,386.28)
Total Assets		\$ 3,036,539.79	\$ 3,100,922.97	\$ (64,383.18)
Full-Time/Part-time Employees		14/1	13/1	0/0

Revenues were \$99,519 under budget primarily due to exam fee revenue. Actual expenses were \$212,480 under budget primarily due to exam sitting and grading fees.

- Total operating revenue decreased this period compared to last by \$57,687 primarily due to a decrease in exam fee revenue.
- ❖ Total net non operating revenue increased this period compared to last by \$11,716 primarily due to an increase in rental income.
- Total expenses increased this period compared to last by \$136,803 primarily due to an increase in salaries due to the hiring of Deputy Director.

03/08/13

NC Board of CPA Examiners
Statement of Net Assets
As of February 28, 2013

	<u>Feb 28, 13</u>	<u>Feb 29, 12</u>
ASSETS		
Current Assets		
Checking/Savings		
1074 · Trust Atlantic Bank - MMA	16,999.03	0.00
1023 · BB&T Disciplinary Clearing Acct	4,000.00	335.00
1020 · BB&T Checking Acct	188,601.25	169,143.16
1021 · BB&T Savings Account	13,890.59	113,597.12
1030 · BB&T Payroll Acct	100.00	-98.13
1050 · CD Investments - Current	661,297.81	953,126.09
1110 · Accrued CD Interest	15,216.69	13,655.09
Total Checking/Savings	<u>900,105.37</u>	<u>1,249,758.33</u>
Other Current Assets		
1165 · Deferred Lease Commissions	4,945.44	0.00
1125 · Accts Rec Civil Penalties	3,750.00	9,000.00
1120 · Accounts Receivable	570.60	1,389.51
Total Other Current Assets	<u>9,266.04</u>	<u>10,389.51</u>
Total Current Assets	909,371.41	1,260,147.84
Fixed Assets		
1330 · Land Improvement	9,240.90	0.00
1300 · Building	917,143.10	917,143.10
1305 · Land	300,000.00	300,000.00
1306 · Vehicle	26,622.40	26,622.40
1310 · Furniture	113,918.90	113,918.90
1320 · Equipment	206,082.29	200,257.14
1325 · Data Base Software	180,336.18	180,336.18
1390 · Accumulated Depreciation	-709,633.91	-646,957.31
Total Fixed Assets	<u>1,043,709.86</u>	<u>1,091,320.41</u>
Other Assets		
1250 · CD Investments Non-Current	1,083,458.52	749,454.72
Total Other Assets	<u>1,083,458.52</u>	<u>749,454.72</u>
TOTAL ASSETS	<u>3,036,539.79</u>	<u>3,100,922.97</u>
LIABILITIES & NET ASSETS		
Liabilities		
Current Liabilities		
Accounts Payable		
2000 · Accounts Payable	0.00	5,560.00
Total Accounts Payable	0.00	5,560.00
Other Current Liabilities		
2040 · Accounts Payable Civil Penalty	3,375.00	7,920.00
2005 · Due to Exam Vendors	471,325.25	520,941.50
Total Other Current Liabilities	<u>474,700.25</u>	<u>528,861.50</u>
Total Current Liabilities	474,700.25	534,421.50

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NC Board of CPA Examiners
Statement of Net Assets
As of February 28, 2013

	<u>Feb 28, 13</u>	<u>Feb 29, 12</u>
Long Term Liabilities		
2020 · Accrued Vacation	77,458.20	75,306.63
Total Long Term Liabilities	<u>77,458.20</u>	<u>75,306.63</u>
<hr/>		
Total Liabilities	552,158.45	609,728.13
Net Assets		
3010 · Net Assets Invest in Cap Assets	1,043,709.86	1,091,320.41
3020 · Designated for Capital Assets	100,000.00	300,000.00
3031 · Designated-Operating Expenses	300,000.00	300,000.00
3040 · Designated for Litigation	750,000.00	500,000.00
3900 · Net Assets Undesignated	87,642.67	-85,928.88
Change in Net Assets	<u>203,028.81</u>	<u>385,803.31</u>
Total Net Assets	<u>2,484,381.34</u>	<u>2,491,194.84</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>3,036,539.79</u></u>	<u><u>3,100,922.97</u></u>

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NC Board of CPA Examiners
Statement of Revenues & Expense - Budget v. Actual
 April 2012 through February 2013

Ordinary Income/Expense	Apr '12 - Fe...	Budget	\$ Over Bu...
Income			
Certificate Fees			
4110 · Certificates - Initial	51,500.00	49,775.00	1,725.00
4120 · Certificates - Reciprocal	22,700.00	22,000.00	700.00
4121 · Certificates - Recip/Temp	0.00	0.00	0.00
4130 · Certificates - Temporary	0.00	0.00	0.00
4131 · Certificates - Temp Renewal	0.00	0.00	0.00
4140 · Certificates - Renewal Fees	1,127,400.00	1,128,000.00	-600.00
4150 · Certificates - Reinst/Revoked	3,500.00	0.00	3,500.00
4151 · Certificates - Reinst/Surr	7,700.00	9,900.00	-2,200.00
4152 · Certificates - Reinst/Retired	0.00	0.00	0.00
4160 · Certificates - Notification	0.00	0.00	0.00
4161 · Certificate - Notification RnwI	0.00	0.00	0.00
Total Certificate Fees	1,212,800.00	1,209,675.00	3,125.00
Exam Fee Revenue			
4001 · Initial Adm Fees	195,965.00	193,302.24	2,662.76
4002 · Re-Exam Adm Fees	139,500.00	150,081.25	-10,581.25
4004 · Exam Fees Revenue	955,737.22	1,059,888.88	-104,151.66
4060 · Equivalency Exam Fees	0.00	0.00	0.00
4070 · Transfer Exam Grade Credit	0.00	0.00	0.00
4071 · Exam Review Fees	0.00	1,329.13	-1,329.13
4072 · Exam Scholarship Coupon	-20,840.05	-38,445.88	17,605.83
Total Exam Fee Revenue	1,270,362.17	1,366,155.62	-95,793.45
Misc			
4910 · Educational Program Fees	-50.00	0.00	-50.00
4970 · Duplicate Certificates	1,100.00	0.00	1,100.00
4980 · Copies	0.00	0.00	0.00
4990 · Miscellaneous	639.50	3,410.00	-2,770.50
Total Misc	1,689.50	3,410.00	-1,720.50
Partnership Fees			
4260 · Partnership Registration Fees	0.00	4,335.87	-4,335.87
4261 · Partnership Renewal Fees	37,810.00	38,030.00	-220.00
Total Partnership Fees	37,810.00	42,365.87	-4,555.87
Professional Corporation Fees			
4250 · PC Registration Fees	4,850.00	4,216.60	633.40
4251 · PC Renewal Fees	35,925.00	34,000.00	1,925.00
4252 · PC Renewal Fees W/Penalties	20.00	0.00	20.00
Total Professional Corporation Fees	40,795.00	38,216.60	2,578.40
Total Income	2,563,456.67	2,659,823.09	-96,366.42
Expense			
6900 · Bad Debit Expense	981.71		
6690 · Over & Short	-0.08	0.00	-0.08

NC Board of CPA Examiners
Statement of Revenues & Expense - Budget v. Actual
 April 2012 through February 2013

	Apr '12 - Fe...	Budget	\$ Over Bu...
Fringe Benefits			
5031 · Retirement - NCLB Contribution	44,443.73	50,947.50	-6,503.77
5033 · Retirement - NCLB Administr	2,164.89	3,203.60	-1,038.71
5035 · Health Ins. Premiums	98,899.90	114,069.37	-15,169.47
5036 · Medical Reim Plan	30,673.53	36,139.60	-5,466.07
5038 · Unemployment Claims	4,701.95	4,800.00	-98.05
Total Fringe Benefits	180,884.00	209,160.07	-28,276.07
Board Travel			
5120 · Board Travel - Board Meetings	19,971.34	21,560.00	-1,588.66
5121 · Board Travel - Prof Meetings	285.33	0.00	285.33
5122 · Board Travel - NASBA Annual	8,557.03	16,450.00	-7,892.97
5123 · Board Travel - NASBA Regional	5,034.00	9,675.00	-4,641.00
5124 · Board Travel - NASBA Committees	0.00	0.00	0.00
5125 · Board Travel - AICPA/NASBA	0.00	0.00	0.00
5126 · Board Travel - NCACPA Annual	0.00	0.00	0.00
5127 · Board Travel - NCACPA/Board	3,034.24	0.00	3,034.24
5128 · Board Travel - AICPA Committees	0.00	0.00	0.00
5129 · Miscellaneous Board Costs	491.78	0.00	491.78
5133 · Board Travel - NASBA CPE	0.00	0.00	0.00
Total Board Travel	37,373.72	47,685.00	-10,311.28
Building Expenses			
5800 · Building Maintenance	1,021.05	1,500.00	-478.95
5801 · Electricity	10,435.22	11,000.00	-564.78
5802 · Grounds Maintenance	1,770.81	10,725.00	-8,954.19
5803 · Heat & Air Maintenance	3,547.49	4,350.00	-802.51
5804 · Improvements	0.00	0.00	0.00
5805 · Insurance	4,218.00	3,500.00	718.00
5807 · Janitorial Maintenance	5,225.00	5,500.00	-275.00
5808 · Pest Control Service	0.00	200.00	-200.00
5809 · Security & Fire Alarm	2,150.31	2,000.00	150.31
5810 · Trash Collection	183.85	0.00	183.85
5811 · Water & Sewer	752.34	1,008.30	-255.96
Total Building Expenses	29,304.07	39,783.30	-10,479.23
Continuing Education -Staff			
5050 · Continuing Education - Staff	2,903.20	2,750.00	153.20
5051 · Continuing Education - RNB	0.00	0.00	0.00
5052 · Continuing Education - Computer	0.00	0.00	0.00
Total Continuing Education -Staff	2,903.20	2,750.00	153.20
Exam Postage			
5531 · Exam Postage	1,200.00	1,191.63	8.37
Total Exam Postage	1,200.00	1,191.63	8.37
Exam Printing			
5533 · Exam Printing	0.00	0.00	0.00
Total Exam Printing	0.00	0.00	0.00

NC Board of CPA Examiners
Statement of Revenues & Expense - Budget v. Actual
 April 2012 through February 2013

	Apr '12 - Fe...	Budget	\$ Over Bu...
Exam Sitting and Grading			
5538 · Exam Vendor Expense	868,590.97	996,222.25	-127,631.28
Total Exam Sitting and Grading	868,590.97	996,222.25	-127,631.28
Exam Supplies			
5532 · Exam Supplies	0.00	0.00	0.00
Total Exam Supplies	0.00	0.00	0.00
Exam Temporary Staff			
5530-10 · Temp Employees - May	0.00	0.00	0.00
5530-20 · Temp Employees - Nov	0.00	0.00	0.00
Total Exam Temporary Staff	0.00	0.00	0.00
Investigation & Hearing Costs			
5220 · Investigator Fees	0.00	0.00	0.00
5221 · Staff Investigation Costs	0.00	0.00	0.00
5222 · Investigation Materials	8,111.25	7,333.37	777.88
5230 · Hearing Costs	2,673.35	4,583.37	-1,910.02
5231 · Rule-Making Hearing Costs	0.00	0.00	0.00
5232 · Legal Advertising	255.00	0.00	255.00
5250 · Administrative Cost Assessed	-7,031.50	-4,125.00	-2,906.50
5260 · Civil Penalties Assessed	-16,100.00	-9,625.00	-6,475.00
5261 · Civil Penalties Remitted	11,349.89	0.00	11,349.89
Total Investigation & Hearing Costs	-742.01	-1,833.26	1,091.25
Legal Expense			
5140 · Legal Counsel - Administrative	14,071.94	22,000.00	-7,928.06
5141 · Legal Counsel - Spec Projects	0.00	0.00	0.00
5210 · Legal Counsel - Prof Standards	17,469.00	16,037.12	1,431.88
5211 · Legal Counsel - Litigation	15.00	5,000.00	-4,985.00
Total Legal Expense	31,555.94	43,037.12	-11,481.18
Misc Personnel			
5034 · Misc. Payroll Deduction	0.00	550.00	-550.00
5037 · HSA Deduction	-62.00	0.00	-62.00
5090 · Flowers, Gifts, Etc.	0.00	0.00	0.00
5091 · Staff Recruiting	714.00	0.00	714.00
5092 · Misc. Personnel Costs	2,100.09	2,200.00	-99.91
Total Misc Personnel	2,752.09	2,750.00	2.09
Office Expense			
5301 · Equipment Rent	889.81	800.00	89.81
5310 · Decorations	127.00	100.00	27.00
5320 · Payroll Service	1,677.56	1,650.00	27.56
5360 · Telephone	6,255.56	6,416.63	-161.07
5361 · Internet & Website	3,500.85	13,750.00	-10,249.15
5390 · Clipping Service	3,617.76	4,125.00	-507.24
5400 · Computer Prog/Assistance	1,740.00	916.63	823.37
5405 · Computer Software Maintenance	36,343.34	38,500.00	-2,156.66
5410 · Dues	8,375.00	8,500.00	-125.00
5420 · Insurance	14,157.00	9,500.00	4,657.00
5430 · Audit Fees	7,400.00	7,400.00	0.00
5435 · Consulting Services	0.00	1,100.00	-1,100.00

NC Board of CPA Examiners
Statement of Revenues & Expense - Budget v. Actual
 April 2012 through February 2013

	Apr '12 - Fe...	Budget	\$ Over Bu...
5440 · Misc Office Expense	642.50	1,000.00	-357.50
5445 · Banking Fees	3,377.64	3,850.00	-472.36
5450 · Credit Card Fees	39,061.68	40,333.37	-1,271.69
Total Office Expense	127,165.70	137,941.63	-10,775.93
Per Diem - Board			
5110 · Per Diem - Board Meetings	8,556.64	11,000.00	-2,443.36
5111 · Per Diem - Prof Meetings	2,637.52	3,666.63	-1,029.11
5112 · Per Diem - NASBA Annual	1,500.00	3,500.00	-2,000.00
5113 · Per Diem - NASBA Regional	1,000.00	2,000.00	-1,000.00
5114 · Per Diem - NASBA Committees	1,800.00	0.00	1,800.00
5115 · Per Diem - AICPA/NASBA	0.00	0.00	0.00
5116 · Per Diem - NCACPA Annual	0.00	0.00	0.00
5117 · Per Diem - NCACPA/Board	350.00	0.00	350.00
5118 · Per Diem - AICPA Committees	0.00	0.00	0.00
5119 · Per Diem - Miscellaneous	0.00	0.00	0.00
5130 · Clerical Reimbursement	0.00	1,750.00	-1,750.00
5135 · Per Diem - NASBA CPE	0.00	0.00	0.00
Total Per Diem - Board	15,844.16	21,916.63	-6,072.47
Postage			
5340 · Postage-Other	14,764.53	14,208.37	556.16
5341 · Postage - Newsletter	63,271.64	55,555.53	7,716.11
5342 · Postage - Business Reply	2,535.00	2,291.63	243.37
5343 · Postage - Renewal	1,800.00	1,833.37	-33.37
5344 · Postage - Rulebook	0.00	0.00	0.00
Total Postage	82,371.17	73,888.90	8,482.27
Printing			
5330 · Printing - Other	7,646.97	4,583.37	3,063.60
5331 · Printing - Newsletter	44,819.65	45,833.30	-1,013.65
5332 · Printing - Special Projects	0.00	0.00	0.00
5333 · Printing - Renewal	0.00	0.00	0.00
5334 · Printing - Rulebook	0.00	0.00	0.00
5335 · Mailing Label Printing	0.00	0.00	0.00
Total Printing	52,466.62	50,416.67	2,049.95
Repairs & Maintenance			
5380 · Repairs - Misc.	0.00	0.00	0.00
5381 · Maintenance - Copiers	2,354.61	2,291.63	62.98
5382 · Maintenance - Computer	0.00	1,810.38	-1,810.38
5383 · Maintenance - Postage	550.00	481.25	68.75
Total Repairs & Maintenance	2,904.61	4,583.26	-1,678.65
Salaries & Payroll Taxes			
5010 · Staff Salaries	843,784.98	847,483.52	-3,698.54
5020 · Part-Time Staff Salaries	10,845.25	12,412.05	-1,566.80
5021 · Temporary Contractors	26.71	0.00	26.71
5030 · FICA Taxes	62,949.49	65,908.51	-2,959.02
Total Salaries & Payroll Taxes	917,606.43	925,804.08	-8,197.65

NC Board of CPA Examiners
Statement of Revenues & Expense - Budget v. Actual
 April 2012 through February 2013

	Apr '12 - Fe...	Budget	\$ Over Bu...
Scholarships			
5535 · Scholarship	9,000.00	9,444.49	-444.49
Total Scholarships	9,000.00	9,444.49	-444.49
Staff Travel			
5060 · Staff Travel - Local	1,026.10	1,145.87	-119.77
5061 · Staff Travel - Prof Mtgs	855.52	3,254.13	-2,398.61
5062 · Staff Travel - NASBA CPE	0.00	0.00	0.00
5063 · Staff Travel - NASBA Ethics	0.00	0.00	0.00
5070 · Staff Travel - NASBA Annual	9,072.29	9,400.00	-327.71
5071 · Staff Travel - NASBA Regional	4,235.97	5,505.00	-1,269.03
5072 · Staff Travel - NASBA Administr	11,642.32	21,375.00	-9,732.68
5073 · Staff Travel - NASBA Committee	-1,079.50	0.00	-1,079.50
5074 · Staff Travel - AICPA	2,668.04	1,100.00	1,568.04
5075 · Staff Travel - NCACPA Annual	33.07	0.00	33.07
5076 · Staff Travel - NCACPA/Board	1,297.00	0.00	1,297.00
5077 · Staff Travel - Clear Conference	785.11	0.00	785.11
5078 · Staff Travel - Vehicle	4,865.03	5,500.00	-634.97
5080 · Staff Travel - Univ Dialogue	196.90	0.00	196.90
Total Staff Travel	35,597.85	47,280.00	-11,682.15
Subscriptions/References			
5370 · Subscriptions/References	3,709.56	2,750.00	959.56
Total Subscriptions/References	3,709.56	2,750.00	959.56
Supplies			
5350 · Supplies - Office	5,413.48	5,500.00	-86.52
5351 · Supplies - Copier	1,894.60	3,300.00	-1,405.40
5352 · Supplies - Computer	4,513.77	2,200.00	2,313.77
5353 · Supplies - Special Projects	0.00	0.00	0.00
Total Supplies	11,821.85	11,000.00	821.85
5920 · Funded Depreciation	0.00	0.00	0.00
6999 · Uncategorized Expenses	0.00	0.00	0.00
9999 · Suspense	0.00	0.00	0.00
Total Expense	2,413,291.56	2,625,771.77	-212,480.21
Net Ordinary Income	150,165.11	34,051.32	116,113.79
Other Income/Expense			
Other Income			
8250 · Gift Card Revenue	1,700.00	6,700.00	-5,000.00
Interest Income			
8500 · Interest Income - MMAs	483.74	0.00	483.74
8505 · Interest Income - BB&T BUS IDA	0.00	0.00	0.00
8510 · Interest Income - CDs	22,954.96	21,816.63	1,138.33
8520 · Interest Income - Prudential TB	0.00	0.00	0.00
8530 · Interest Income - Wachovia MM	0.00	0.00	0.00
Total Interest Income	23,438.70	21,816.63	1,622.07

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NC Board of CPA Examiners
Statement of Revenues & Expense - Budget v. Actual
 April 2012 through February 2013

	<u>Apr '12 - Fe...</u>	<u>Budget</u>	<u>\$ Over Bu...</u>
8200 · Rental Income	27,725.00	27,500.00	225.00
8920 · Gain on Sale of Fixed Assets	0.00	0.00	0.00
8921 · Loss on Sale of Fixed Assets	0.00	0.00	0.00
Total Other Income	<u>52,863.70</u>	<u>56,016.63</u>	<u>-3,152.93</u>
Other Expense			
7000 · Leasing Commission	0.00	0.00	0.00
Total Other Expense	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net Other Income	<u>52,863.70</u>	<u>56,016.63</u>	<u>-3,152.93</u>
Change in Net Assets	<u><u>203,028.81</u></u>	<u><u>90,067.95</u></u>	<u><u>112,960.86</u></u>

NC Board of CPA Examiners
Statement of Revenues & Expenses
 Year-to-Date Comparison

	<u>Apr '12 - Fe...</u>	<u>Apr '11 - Fe...</u>
Ordinary Income/Expense		
Income		
Certificate Fees		
4110 · Certificates - Initial	51,500.00	50,900.00
4120 · Certificates - Reciprocal	22,700.00	22,100.00
4121 · Certificates - Recip/Temp	0.00	200.00
4140 · Certificates - Renewal Fees	1,127,400.00	1,104,220.00
4150 · Certificates - Reinst/Revoked	3,500.00	3,300.00
4151 · Certificates - Reinst/Surr	7,700.00	6,800.00
4152 · Certificates - Reinst/Retired	0.00	180.00
Total Certificate Fees	<u>1,212,800.00</u>	<u>1,187,700.00</u>
Exam Fee Revenue		
4001 · Initial Adm Fees	195,965.00	188,830.00
4002 · Re-Exam Adm Fees	139,500.00	148,875.00
4004 · Exam Fees Revenue	955,737.22	1,028,394.79
4071 · Exam Review Fees	0.00	1,250.00
4072 · Exam Scholarship Coupon	-20,840.05	-19,329.75
Total Exam Fee Revenue	<u>1,270,362.17</u>	<u>1,348,020.04</u>
Misc		
4910 · Educational Program Fees	-50.00	0.00
4970 · Duplicate Certificates	1,100.00	500.00
4990 · Miscellaneous	639.50	3,119.50
Total Misc	<u>1,689.50</u>	<u>3,619.50</u>
Partnership Fees		
4260 · Partnership Registration Fees	0.00	4,730.00
4261 · Partnership Renewal Fees	37,810.00	38,030.00
Total Partnership Fees	<u>37,810.00</u>	<u>42,760.00</u>
Professional Corporation Fees		
4250 · PC Registration Fees	4,850.00	4,250.00
4251 · PC Renewal Fees	35,925.00	34,775.00
4252 · PC Renewal Fees W/Penalties	20.00	20.00
Total Professional Corporation Fees	<u>40,795.00</u>	<u>39,045.00</u>
Total Income	<u>2,563,456.67</u>	<u>2,621,144.54</u>
Expense		
6900 · Bad Debit Expense	981.71	0.00
6690 · Over & Short	-0.08	-280.71
Fringe Benefits		
5031 · Retirement - NCLB Contribution	44,443.73	45,650.33
5033 · Retirement - NCLB Administr	2,164.89	2,626.55
5035 · Health Ins. Premiums	98,899.90	88,810.31
5036 · Medical Reim Plan	30,673.53	28,669.98
5038 · Unemployment Claims	4,701.95	0.00
Total Fringe Benefits	<u>180,884.00</u>	<u>165,757.17</u>

NC Board of CPA Examiners
Statement of Revenues & Expenses
 Year-to-Date Comparison

	Apr '12 - Fe...	Apr '11 - Fe...
Board Travel		
5120 · Board Travel - Board Meetings	19,971.34	18,124.14
5121 · Board Travel - Prof Meetings	285.33	808.58
5122 · Board Travel - NASBA Annual	8,557.03	7,644.41
5123 · Board Travel - NASBA Regional	5,034.00	8,711.25
5124 · Board Travel - NASBA Committees	0.00	200.00
5127 · Board Travel - NCACPA/Board	3,034.24	0.00
5128 · Board Travel - AICPA Committees	0.00	167.40
5129 · Miscellaneous Board Costs	491.78	0.00
Total Board Travel	37,373.72	35,655.78
Building Expenses		
5800 · Building Maintenance	1,021.05	476.12
5801 · Electricity	10,435.22	9,927.51
5802 · Grounds Maintenance	1,770.81	18,928.00
5803 · Heat & Air Maintenance	3,547.49	4,609.00
5804 · Improvements	0.00	445.48
5805 · Insurance	4,218.00	3,482.00
5807 · Janitorial Maintenance	5,225.00	5,241.10
5808 · Pest Control Service	0.00	125.00
5809 · Security & Fire Alarm	2,150.31	2,039.49
5810 · Trash Collection	183.85	81.21
5811 · Water & Sewer	752.34	744.49
Total Building Expenses	29,304.07	46,099.40
Continuing Education -Staff		
5050 · Continuing Education - Staff	2,903.20	845.00
Total Continuing Education -Staff	2,903.20	845.00
Exam Postage		
5531 · Exam Postage	1,200.00	1,019.31
Total Exam Postage	1,200.00	1,019.31
Exam Sitting and Grading		
5538 · Exam Vendor Expense	868,590.97	934,592.54
Total Exam Sitting and Grading	868,590.97	934,592.54
Investigation & Hearing Costs		
5221 · Staff Investigation Costs	0.00	40.00
5222 · Investigation Materials	8,111.25	7,835.31
5230 · Hearing Costs	2,673.35	5,828.79
5232 · Legal Advertising	255.00	0.00
5250 · Administrative Cost Assessed	-7,031.50	-18,326.50
5260 · Civil Penalties Assessed	-16,100.00	-155,435.00
5261 · Civil Penalties Remitted	11,349.89	61,782.66
Total Investigation & Hearing Costs	-742.01	-98,274.74
Legal Expense		
5140 · Legal Counsel - Administrative	14,071.94	15,937.50
5210 · Legal Counsel - Prof Standards	17,469.00	38,130.00
5211 · Legal Counsel - Litigation	15.00	4,230.00
Total Legal Expense	31,555.94	58,297.50

NC Board of CPA Examiners
Statement of Revenues & Expenses
 Year-to-Date Comparison

	<u>Apr '12 - Fe...</u>	<u>Apr '11 - Fe...</u>
Misc Personnel		
5034 · Misc. Payroll Deduction	0.00	0.00
5037 · HSA Deduction	-62.00	0.00
5090 · Flowers, Gifts, Etc.	0.00	69.59
5091 · Staff Recruiting	714.00	227.11
5092 · Misc. Personnel Costs	2,100.09	1,956.39
Total Misc Personnel	<u>2,752.09</u>	<u>2,253.09</u>
Office Expense		
5301 · Equipment Rent	889.81	868.64
5310 · Decorations	127.00	1,503.45
5320 · Payroll Service	1,677.56	1,618.70
5360 · Telephone	6,255.56	6,257.10
5361 · Internet & Website	3,500.85	14,111.77
5390 · Clipping Service	3,617.76	3,598.46
5400 · Computer Prog/Assistance	1,740.00	1,990.00
5405 · Computer Software Maintenance	36,343.34	26,137.86
5410 · Dues	8,375.00	8,055.00
5420 · Insurance	14,157.00	9,288.00
5430 · Audit Fees	7,400.00	7,125.00
5435 · Consulting Services	0.00	1,105.00
5440 · Misc Office Expense	642.50	17.55
5445 · Banking Fees	3,377.64	3,485.69
5450 · Credit Card Fees	39,061.68	42,282.42
Total Office Expense	<u>127,165.70</u>	<u>127,444.64</u>
Per Diem - Board		
5110 · Per Diem - Board Meetings	8,556.64	6,650.00
5111 · Per Diem - Prof Meetings	2,637.52	0.00
5112 · Per Diem - NASBA Annual	1,500.00	1,800.00
5113 · Per Diem - NASBA Regional	1,000.00	1,300.00
5114 · Per Diem - NASBA Committees	1,800.00	858.18
5117 · Per Diem - NCACPA/Board	350.00	0.00
Total Per Diem - Board	<u>15,844.16</u>	<u>10,608.18</u>
Postage		
5340 · Postage-Other	14,764.53	15,887.06
5341 · Postage - Newsletter	63,271.64	49,459.58
5342 · Postage - Business Reply	2,535.00	1,374.14
5343 · Postage - Renewal	1,800.00	1,528.97
Total Postage	<u>82,371.17</u>	<u>68,249.75</u>
Printing		
5330 · Printing - Other	7,646.97	4,708.79
5331 · Printing - Newsletter	44,819.65	41,173.96
Total Printing	<u>52,466.62</u>	<u>45,882.75</u>
Repairs & Maintenance		
5381 · Maintenance - Copiers	2,354.61	2,093.75
5382 · Maintenance - Computer	0.00	2,878.73
5383 · Maintenance - Postage	550.00	525.00
Total Repairs & Maintenance	<u>2,904.61</u>	<u>5,497.48</u>

NC Board of CPA Examiners
Statement of Revenues & Expenses
 Year-to-Date Comparison

	<u>Apr '12 - Fe...</u>	<u>Apr '11 - Fe...</u>
Salaries & Payroll Taxes		
5010 · Staff Salaries	843,784.98	758,168.42
5020 · Part-Time Staff Salaries	10,845.25	12,817.64
5021 · Temporary Contractors	26.71	0.00
5030 · FICA Taxes	62,949.49	56,682.00
Total Salaries & Payroll Taxes	<u>917,606.43</u>	<u>827,668.06</u>
Scholarships		
5535 · Scholarship	9,000.00	4,000.00
Total Scholarships	<u>9,000.00</u>	<u>4,000.00</u>
Staff Travel		
5060 · Staff Travel - Local	1,026.10	2,031.69
5061 · Staff Travel - Prof Mtgs	855.52	2,024.81
5070 · Staff Travel - NASBA Annual	9,072.29	6,402.92
5071 · Staff Travel - NASBA Regional	4,235.97	4,944.98
5072 · Staff Travel - NASBA Administr	11,642.32	7,755.50
5073 · Staff Travel - NASBA Committee	-1,079.50	-374.12
5074 · Staff Travel - AICPA	2,668.04	2,094.03
5075 · Staff Travel - NCACPA Annual	33.07	24.44
5076 · Staff Travel - NCACPA/Board	1,297.00	27.54
5077 · Staff Travel - Clear Conference	785.11	0.00
5078 · Staff Travel - Vehicle	4,865.03	4,058.84
5080 · Staff Travel - Univ Dialogue	196.90	0.00
Total Staff Travel	<u>35,597.85</u>	<u>28,990.63</u>
Subscriptions/References		
5370 · Subscriptions/References	3,709.56	2,817.50
Total Subscriptions/References	<u>3,709.56</u>	<u>2,817.50</u>
Supplies		
5350 · Supplies - Office	5,413.48	5,186.90
5351 · Supplies - Copier	1,894.60	1,779.09
5352 · Supplies - Computer	4,513.77	2,065.08
Total Supplies	<u>11,821.85</u>	<u>9,031.07</u>
5920 · Funded Depreciation	0.00	333.98
9999 · Suspense	0.00	0.00
Total Expense	<u>2,413,291.56</u>	<u>2,276,488.38</u>
Net Ordinary Income	150,165.11	344,656.16
Other Income/Expense		
Other Income		
8250 · Gift Card Revenue	1,700.00	7,550.00
Interest Income		
8500 · Interest Income - MMAs	483.74	0.00
8510 · Interest Income - CDs	22,954.96	31,555.77
Total Interest Income	<u>23,438.70</u>	<u>31,555.77</u>

03/08/13

NC Board of CPA Examiners
Statement of Revenues & Expenses
Year-to-Date Comparison

	<u>Apr '12 - Fe...</u>	<u>Apr '11 - Fe...</u>
8200 · Rental Income	27,725.00	7,500.00
8920 · Gain on Sale of Fixed Assets	0.00	105.00
Total Other Income	<u>52,863.70</u>	<u>46,710.77</u>
Other Expense		
7000 · Leasing Commission	0.00	5,563.62
Total Other Expense	<u>0.00</u>	<u>5,563.62</u>
Net Other Income	<u>52,863.70</u>	<u>41,147.15</u>
Change in Net Assets	<u><u>203,028.81</u></u>	<u><u>385,803.31</u></u>

FREQUENTLY ASKED QUESTIONS ABOUT STRUCTURED CERTIFICATES OF DEPOSIT

Introduction

What are Structured Certificates of Deposit?

Structured Certificates of Deposit ("SCDs") are financial instruments representing a deposit of a specified amount of money for a fixed period of time. Like traditional certificates of deposit ("CDs"), SCDs entitle the holder to his or her principal investment, plus possible additional payments. However, unlike traditional CDs, which usually pay interest periodically based on a fixed or floating rate, SCDs often pay an additional payment at maturity or periodic interest payments based on the performance of an underlying asset, such as one or more equity securities, an index, or one or more currency exchange rates. SCDs are customizable and can be tailored to fulfill specific investment objectives.

What are sample terms of a Structured Certificate of Deposit?

Bank X issues a certificate of deposit with a two-year term, a 100% participation rate, and a minimum investment of \$1,000. In lieu of a fixed interest rate, Bank X has offered to pay an amount equal to the appreciation of the Dow Jones Industrial Average Index

(the "DJIA") over that two-year term. If the DJIA increases by 20% in the two-year time period, Bank X will pay \$200 for each \$1,000 invested plus the \$1,000 in principal, or \$1,200 in total. However, if the DJIA declines, Bank X will only pay out at maturity the principal amount.

What are some examples of underlying assets to which Structured Certificates of Deposit can be linked?

As discussed above, an investor is entitled to the principal amount invested plus a return based on the performance of an underlying asset. Examples of reference assets include equity indices (e.g., the Dow Jones Industrial Average and S&P 500 Index), foreign currency exchange rates (e.g., the BRIC Currency Basket), commodities (e.g., oil and gas or gold prices), or some combination of any of these.

How do Structured Certificates of Deposits differ from traditional Certificates of Deposits?

SCDs possess a number of characteristics not generally associated with traditional CDs.

First, unlike traditional CDs, SCDs do not generally pay interest at a fixed or floating rate; instead, they generally pay an additional payment at maturity or

How much of an investor's deposit is insured by the FDIC?

FDIC insurance coverage applies to bank products that are classified as "deposits." In the past, this meant that the FDIC covered up to \$100,000 of an investor's deposits with the relevant bank. However, in 2008, the federal government temporarily raised the insurance amount to \$250,000 and, in July 2010, this temporary increase was made permanent following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Are there any limitations to the FDIC coverage?

The guarantee by the FDIC is limited to the principal invested and any guaranteed interest rate, but does not extend to the amount of any "contingent" interest. For example, in the hypothetical scenario outlined above, if the issuing bank were to fail prior to maturity of the SCD, the FDIC insurance would only cover the \$1,000 investment, but not the \$200 of earnings based on the performance of the DJIA. In addition, if an investor pays a purchase price for the SCDs that exceeds the par amount of the deposit, for example, paying \$1,005 for a \$1,000 SCD in the secondary market, the premium paid by the investor would not be covered by FDIC insurance.

Further, investors are still subject to the direct credit risk of the issuing bank for any dollar amount over the maximum applicable deposit insurance coverage. This would occur, for example, if the investor holds other deposits with the applicable bank that together exceed \$250,000.

Can a Structured Certificate of Deposit be non-principal-protected?

Not if the SCD is intended to be covered by FDIC insurance. FDIC insurance extends only to those bank products that are regarded as deposits. The FDIC has taken the position that an instrument must guarantee the repayment of principal in order to be treated as a deposit. (See: "How much of an investor's deposit is insured by the FDIC?")

How does the Truth-in-Savings Act apply to Structured Certificate of Deposits?

Under Federal Reserve Regulation DD (which implements the Truth-in-Savings Act), issuing banks are required to make certain disclosures with regard to deposit accounts "held by or offered to" consumers in order to enable consumers to make informed decisions about accounts such as SCDs. Section 230.8 of Regulation DD ("Section 230.8") prohibits an issuing bank from advertising its deposit accounts in any way that is inaccurate or misleading. The regulation contains a variety of specific disclosure rules with which issuers of CDs must comply. For instance, banks are prohibited from using the word "profit" in referring to interest payments, or using the words "free" or "no cost" if a maintenance or activity fee is imposed on the account. Banks are also obligated to comply with Section 230.8's advertising rules regarding rates of return. For example, an issuing bank must state certain types of interest payments as an "annual percentage yield," and disclose any and all fees associated with the deposit, such as ladder rates on various CDs, as well as any penalty fees that may be imposed for early withdrawal.

by reference a variety of the definitions, registration, and prospectus delivery requirements of the 1933 Act, as well as the implementing rules of the Securities and Exchange Commission (the "SEC"), including the definition of "security." As a result, most FDIC-insured SCDs issued by these banks are exempt from registration under the OCC's rules, for the same reasons that result in their exemption from registration under the 1933 Act. (See "Are Structured Certificates of Deposit subject to the registration requirements of the federal securities laws?")

Do "Blue Sky Laws" apply to Structured Certificates of Deposit?

No. Since they are usually not considered securities under federal securities law, SCDs fall outside of the registration requirements imposed by each state's Blue Sky Laws. Further, under the National Securities Markets Improvement Act of 1996, federal law preempts the application of Blue Sky Laws to certain categories of securities, known as "covered securities." Included in the definition of "covered securities" are certain securities exempt under Section 3(a) of the 1933 Act. These include any security issued or guaranteed by any bank. Because SCDs are issued by banks, even if they were securities, they would be "covered securities" and fall outside of the Blue Sky Laws.

Documentation for Structured CDs

What disclosure requirements must issuing banks comply with in connection with their Structured Certificates of Deposit?

While they are generally excluded from the registration requirements under the Securities Act, SCDs may not be excluded from certain disclosure requirements by the self-regulating organizations. For instance, in 2006, the New York Stock Exchange, or "NYSE," published Information Memo 06-12 addressing the disclosure and sale practices concerning SCDs. A key concern of the NYSE was the adequacy of the disclosure materials used in connection with the sale of SCDs and whether an investor would fully understand how these differ from conventional CDs. The NYSE required that its member organizations be able to identify the customer criteria that defines the appropriate market for a particular SCD, and provide training to their registered representatives to assure that they can identify investors for whom the SCD may be suitable. From a disclosure standpoint, the NYSE required its member organizations to make appropriate disclosures to investors prior to, or at the time of, the sale. In addition, member organizations must clearly explain the risks associated with SCDs. Such risks include, but are not limited to, market risks, liquidity risks, tax implications, and any potential call features (if applicable).

The SEC has also indicated some of the concerns that it has had as to the disclosures made in connection with sales of SCDs. In 2010, the SEC added a page to its website, "Equity Linked CDs" (<http://www.sec.gov/answers/equitylinkedcds.htm>), which serves as a reminder to issuers and brokers of SCDs of certain key disclosure issues.

How are Structured Certificates of Deposit marketed?

The marketing process for SCDs is similar to the process employed in offering structured notes that are issued under a medium-term note program. Banks that are frequent issuers of SCDs will market SCDs with specific structures, linked to different reference assets. Further, as with medium-term notes, an issuing bank can tailor a SCD offering with characteristics that are unique to the market, in order to meet the needs of specific investors (also known as a "reverse inquiry").

Are Structured Certificates of Deposit subject to hedging transactions?

As with medium-term note offerings, the issuing bank or any of its affiliates may engage in hedging transactions. An issuing bank will typically hedge to offset its payment obligations at maturity. This hedge transaction is typically arranged by the investment bank that is acting as broker for the SCDs.

Can Structured Certificates of Deposit be withdrawn prior to maturity?

Usually not. However, depending on the terms of the particular SCD, an issuing bank may offer an "estate feature" (otherwise commonly known as a "death put" or "Survivor's Option"). In the event the depositor of an SCD passes away (or, in some cases, becomes legally incapacitated), the estate or legal representative has the right, but not the obligation, to redeem the SCD for the full deposit amount before the date of maturity, without being subject to any penalty provisions.

Can an SCD underperform a traditional certificate of deposit?

Yes. Unlike traditional CDs, which provide for a fixed rate of return, the rate of return for an SCD is contingent on the performance of the underlying asset. There may be no assurance of any return above the deposit amount. While an investor is guaranteed his or her principal amount, in the end, if the reference asset performs unfavorably, the investor will still experience an "opportunity cost," compared to having invested in a traditional, interest-paying CD.

What is a "participation rate"?

The "participation rate" is the exposure of a product to movements in the price or level of the underlying asset. A participation rate of 100% would generate a return equal to any increase in the value of underlying asset. Conversely, if the participation rate is 80%, an investor will receive 80% of the increase in the value of underlying reference asset. In such a case, the SCD will underperform the underlying asset if the value of the underlying asset increases.

What are some other features that could limit an investor's return at maturity?

Even if the asset performs favorably, depending on the terms of an SCD, the return on the investment may be limited by a predetermined return (a "cap") or some other term specific to a particular SCD. These types of features could cause the SCD to perform less well than the relevant underlying asset. Further, because SCDs are FDIC-insured, the premiums and assessments paid by the bank issuer to the FDIC are usually passed on to the investor in the form of a lower participation rate or a lower maximum payment, as compared to non-FDIC-insured investments.



Principal Protection and Growth Potential

Market Linked Certificates of Deposit Issued by Wells Fargo Bank, N.A.

Many investors look for opportunities to participate in the appreciation of a rising equity market while limiting their exposure to market downturns. For those investors, Wells Fargo offers a product which combines some of the features of a traditional Certificate of Deposit with the long-term growth potential offered by the market—the Wells Fargo Market Linked CD.

Wells Fargo Market Linked CD At-a-Glance:

- **Full Principal Guarantee.** The investor's principal is 100% protected by Wells Fargo Bank, N.A., if the Market Linked CD is held to maturity. Wells Fargo Bank, N.A. has the highest possible credit rating, Aaa, from Moody's Investors Service and the highest credit rating given to a U.S. bank, AA+, from Standard & Poor's Ratings Services.*
- **FDIC Insurance.** Market Linked CDs are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$100,000 per depositor, subject to FDIC rules and decisions. Because other deposits at the bank may also be covered by FDIC insurance, these deposits must be aggregated with this CD with respect to the \$100,000 maximum. More information may be found in the "Deposit Insurance" section of the appropriate Disclosure Statement.
- **Growth Potential.** With a Market Linked CD, the investor's rate of return is linked to popular equity indices, such as the S&P 500 or the Dow Jones Industrial Average. We may separately offer a CD linked to an inflation benchmark such as the Consumer Price Index (CPI).
- **Interest.** A Market Linked CD tied to the equity market will generally pay interest only at maturity based on the performance of the underlying index, instead of periodic interest payments. At times, an equity based Market Linked CD may offer a

guaranteed minimum rate of return at maturity with the opportunity to earn a greater return linked to the performance of a rising equity market. However, inflation based Market Linked CDs will pay interest periodically. A Market Linked CD may return less than a comparable traditional CD.

- **Maturities.** Usually 3–7 years.
- **Minimum Investment.** Typically \$4,000 with additional investment available in increments of \$1,000.

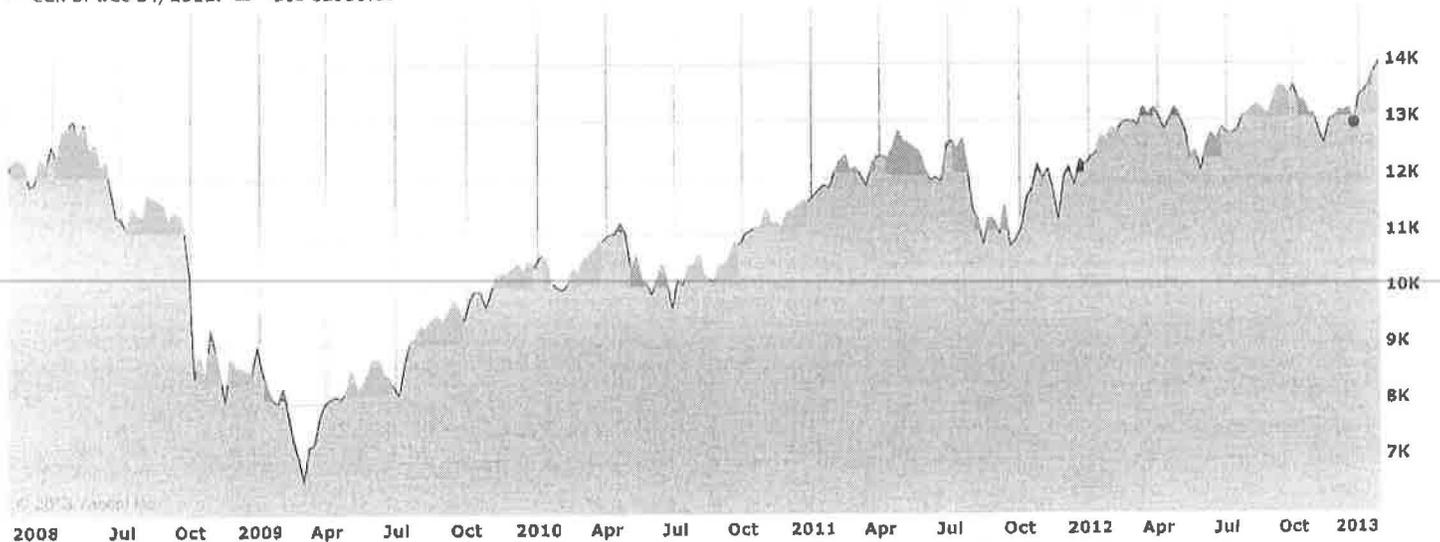
Who Should Consider a Market Linked CD?

- Market Linked CDs are a practical alternative for the conservative investor who is:
 - Seeking equity market participation in a principal-protected investment
 - Averse to risk
 - Interested in the potential to earn higher returns than a traditional CD.
 - Looking for medium-term growth.
 - A buy and hold investor, who doesn't anticipate the need for funds from their investment before the Market Linked CD matures.
 - Considering this investment as a medium-term savings vehicle.
- Market Linked CDs may also be well-suited for qualified retirement accounts such as a traditional IRAs, Roth IRAs, or educational savings accounts.

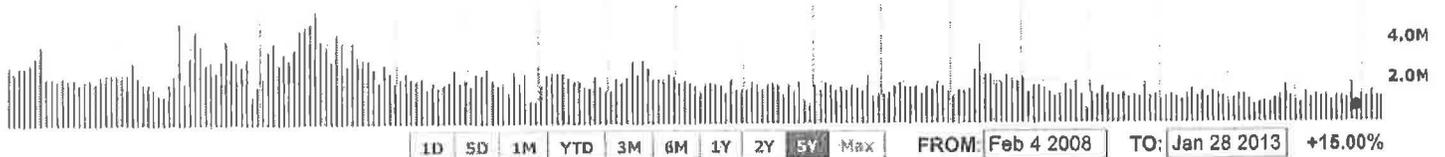
Example 1:

Deposit Amount:	\$200,000
FDIC Coverage:	\$250,000 per depositor per insured bank.
Maturity:	7 (seven years)
Instrument:	Certificate of Deposit Linked to Dow Jones Industrial Average
Product Description:	If at maturity the average index level is greater than the initial index level, you will receive the deposit amount of your CD plus a return based on the quarterly average appreciation of the index. If the average index level is less than or equal to the initial index level, you will receive the deposit amount of your CD at maturity.
Placement Fee:	Bank and Brokers receive a placement fee of up to 1.50% of the deposit amount. In addition, the issuing price of the CD includes structuring and development costs. In no event will the placement fee and structuring and development costs exceed \$60.00 per \$1,000 deposit amount.
Interest Calculation:	$\text{Deposit Amount} \times \text{Participation Rate} \times$ $\frac{\text{Average Index Level} - \text{Initial Index Level}}{\text{Initial Index Level}}$
Hypothetical:	Based on average appreciation of DJIA of 10% and Participation Rate of 1.10
Interest Amount:	$200,000 \times 1.10 \times .10 = 22,000$
Annualized Return	$\frac{(\$22,000 - \text{Fees})/7}{200,000} = 1.57\%$ (with no fees)

Week of Dec 24, 2012: ^DJI 12938.11



Volume: 783,150



DJIA TRAILING
5 YRS

Example 2:

Deposit Amount: \$200,000

FDIC Coverage: \$250,000 per depositor per insured bank.

Maturity: 7 (seven years)

Instrument: Barclays Bank Delaware Certificate of Deposit Linked to a Basket of 10 Common Stocks consisting of: Starbucks Corp., Freeport - McMoran Copper, Yum Brands Inc., Eli Lilly & Co., Walgreen Co., Silver Wheaton Corp., Progressive Corp., Verizon Communications Inc., Darden Restaurants Inc., Northeast Utilities.

Product Description: A Coupon Payment per \$1,000 principal is made on each Coupon Payment Date equal to the Coupon Rate multiplied by \$1000. The Coupon Rate is determined by the Stock Return and has a Return Cap of 4.00-5.00%, a Return Floor of -15.00% with a minimum return of .50%. The Return Cap is determined on the Basket Initial Valuation Date and will not be less than 4.00%. The Stock Return with respect to each Basket Component, on any Coupon Determination Date is a percentage equal to (Final Share Price - Initial Share Price/Initial Share Price).

Coupon Payment: Principal Amount X Stock Return (Final Share Price - Initial Share Price/Initial Share Price). Stock Return not to exceed 4.00% - 5.00% and will be no less than .50%.

Hypothetical:	Coupon Determination Dates						
	1	2	3	4	5	6	7
Average Stock							
Performance(%)	-15	-2.05	.05	4	4	.70	.70
Min. Cpn. %	.50	.50	.50	.50	.50	.50	.50
Cpn. Rate %	.50	.50	.50	4.0	4.0	.70	.70
Cpn. Payment(\$)	5.00	5.00	5.00	40.00	40.00	7.00	7.00

Hypothetical sum of Coupon Payments on CD is \$109.00 per \$1,000.

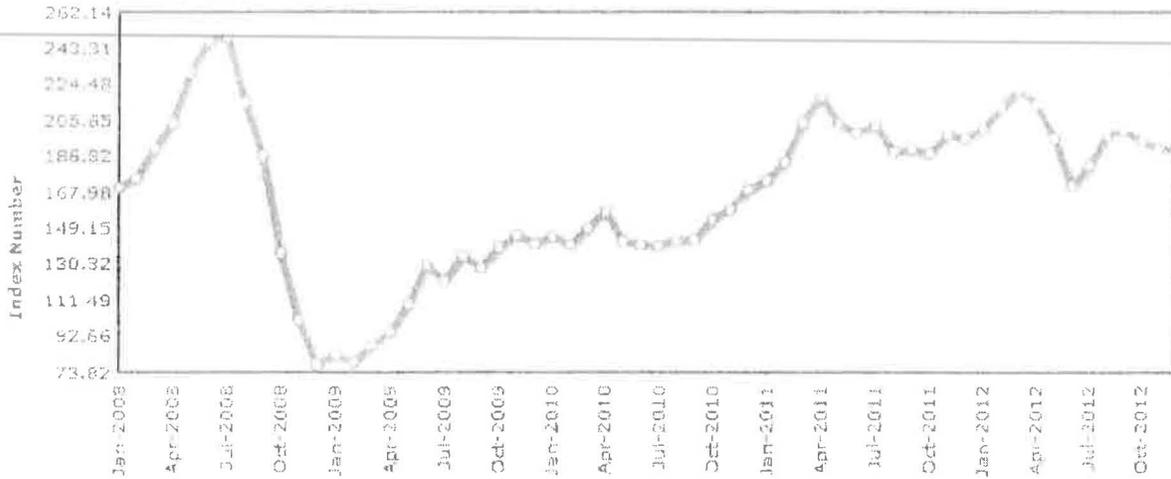
Annualized Rate of Return $(109 \times 200) / 7 = 1.56\%$

200,000

Crude Oil (petroleum), Price index Monthly Price - Index Number

Range 6m 1y 5y 10y 15y 20y 25y 30y

Jan 2008 - Dec 2012: 20.560 (12.08 %)



Description: Crude Oil (petroleum), Price index, 2005 = 100, simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

Unit: Index Number

Source: International Monetary Fund

See also: Agricultural production statistics

See also: Top commodity suppliers

See also: Commodities glossary - Definitions of terms used in commodity trading

Month	Price	Change
Jan 2008	170.25	-
Feb 2008	175.34	2.99 %
Mar 2008	191.10	8.99 %
Apr 2008	204.24	6.88 %
May 2008	230.52	12.87 %
Jun 2008	247.01	7.15 %
Jul 2008	249.66	1.07 %
Aug 2008	215.30	-13.76 %
Sep 2008	187.06	-13.12 %
Oct 2008	136.34	-27.11 %
Nov 2008	101.24	-25.74 %
Dec 2008	77.71	-23.24 %
Jan 2009	82.58	6.27 %
Feb 2009	78.83	-4.54 %

Copper Futures End of Day Settlement Price

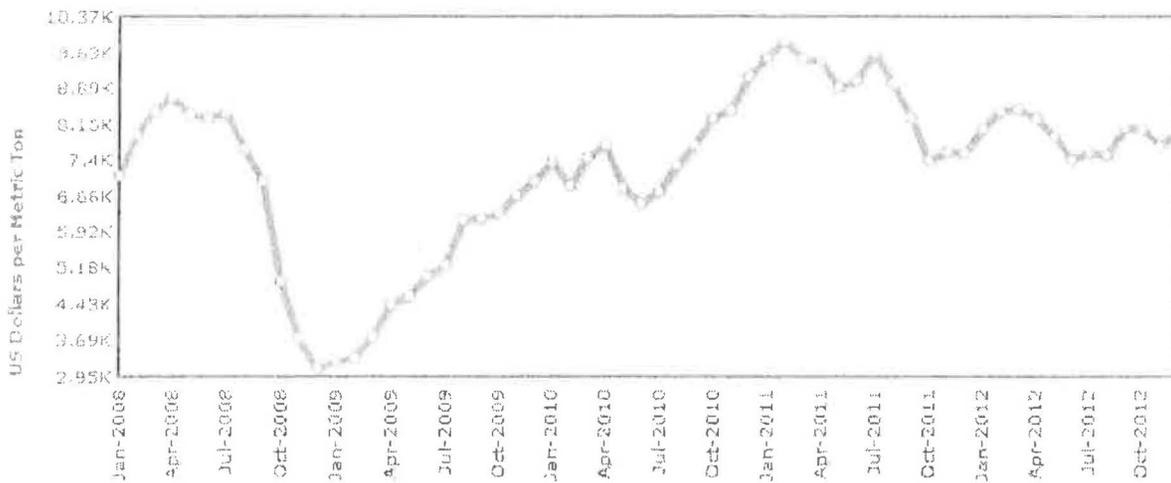
8,323.55

US Dollars per Metric Ton	Open: 8,225.45	Change: 114.64
Price in U.S. Dollars and Cents per pound: 3.7755	High: 8,323.55	Estimated Volume: 175
Contract Month: FEB 13	Low: 8,225.45	Prior Day Open Interest: 1083
As of: Friday, February 01, 2013	Last: -	Contract Specifications
Source: COMEX - CME Group		

Copper, grade A cathode Monthly Price - US Dollars per Metric Ton

Range 6m 1y 5y 10y 15y 20y 25y 30y

Jan 2008 - Dec 2012: 887,580 (12.54 %)



Description: Copper, grade A cathode, LME spot price, CIF European ports, US Dollars per Metric Ton

Unit: US Dollars per Metric Ton

Currency: US Dollar

Compare to: Nothing

Source: World Bank

See also: Mineral production statistics

See also: Top commodity suppliers

See also: Commodities glossary - Definitions of terms used in commodity trading

Month	Price	Change
Jan 2008	7,078.91	-
Feb 2008	7,941.14	12.18 %
Mar 2008	8,434.32	6.21 %

Corn Futures End of Day Settlement Price

289.76

US\$ per metric ton	Open: 291.44	Change: -1.38
Price in Cents per bushel: 736'0	High: 293.80	Estimated Volume: 160375
Contract Month: MAR 13	Low: 289.37	Prior Day Open Interest: 494862
As of: Friday, February 01, 2013	Last: 289.76	Contract Specifications
Source: CBOT - CME Group		

Maize (corn) Daily Price

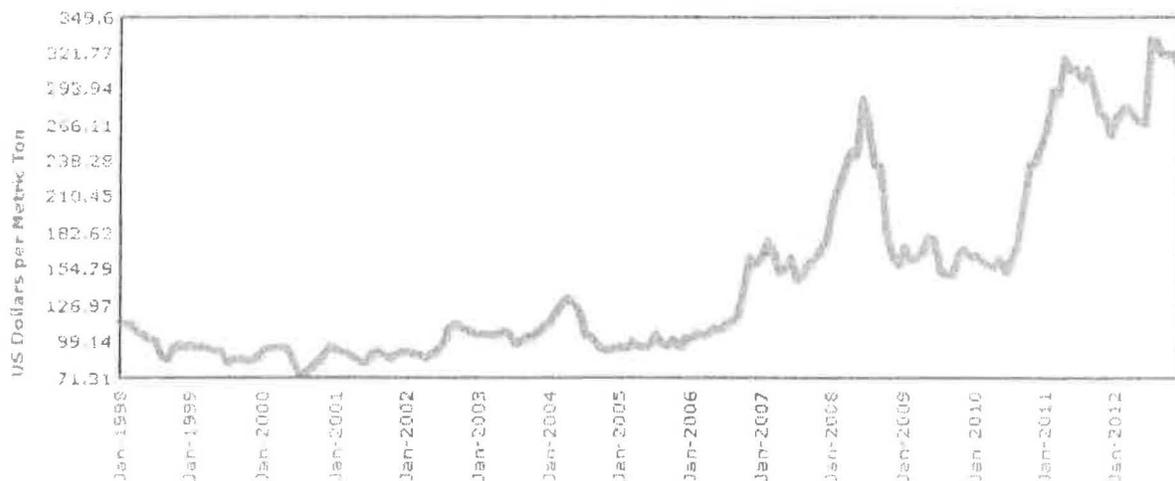
312.20

Maize (corn), U.S. No. 2 Yellow, FOB Gulf of Mexico, U.S. price, US\$ per metric ton
 Price in US\$ per bushel: 7.93
 As of: Friday, February 01, 2013
 Source: USDA Market News

Maize (corn) Monthly Price - US Dollars per Metric Ton

Range 6m 1y 5y 10y 15y 20y 25y 30y

Jan 1998 - Dec 2012: 194.350 (169.93 %)



Description: Maize (corn), U.S. No.2 Yellow, FOB Gulf of Mexico, U.S. price, US Dollars per Metric Ton

Unit: US Dollars per Metric Ton

Currency: US Dollar

Compare to: Nothing

Source: World Bank

See also: Maize (corn) production statistics

See also: Top commodity suppliers

Gulf Coast Gasoline Futures End of Day Settlement Price

2.8438

U.S. dollars and cents per gallon	Open: -	Change:	-0.0075
Contract Month: NOV 12	High: -	Estimated Volume:	-
As of: Friday, October 12, 2012	Low: -	Prior Day Open Interest:	-
Source: NYMEX - CME Group	Last: -	Contract Specifications	

Gasoline Daily Price

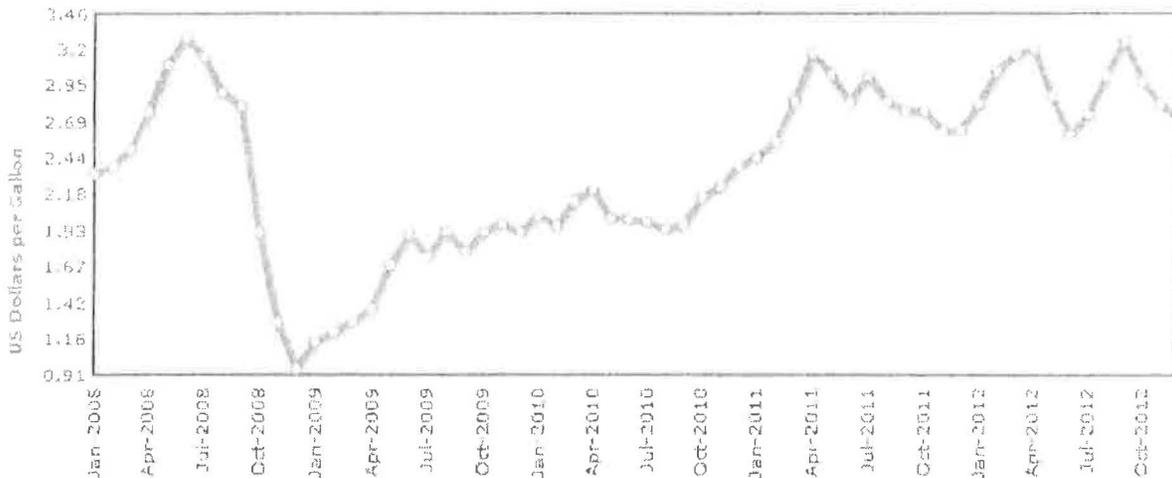
3.00

New York Harbor Conventional Gasoline Regular Spot Price FOB, US\$ per gallon
 As of: Tuesday, January 29, 2013
 Source: US Energy Information Administration

Gasoline Monthly Price - US Dollars per Gallon

Range 6m 1y 5y 10y 15y 20y 25y 30y

Jan 2008 - Dec 2012: 0.393 (16.84 %)



Description: New York Harbor Conventional Gasoline Regular Spot Price FOB

Unit: US Dollars per Gallon

Currency: US Dollar

Compare to: Nothing

Source: Energy Information Administration

See also: Energy production and consumption statistics

See also: Top commodity suppliers

Soybeans Futures End of Day Settlement Price

541.69

US\$ per metric ton	Open: 540.12	Change: 2.11
Price in Cents per bushel: 1474'2	High: 546.19	Estimated Volume: 95524
Contract Month: MAR 13	Low: 537.83	Prior Day Open Interest: 220060
As of: Friday, February 01, 2013	Last: 541.59	Contract Specifications
Source: CBOT - CME Group		

Soybeans Daily Price

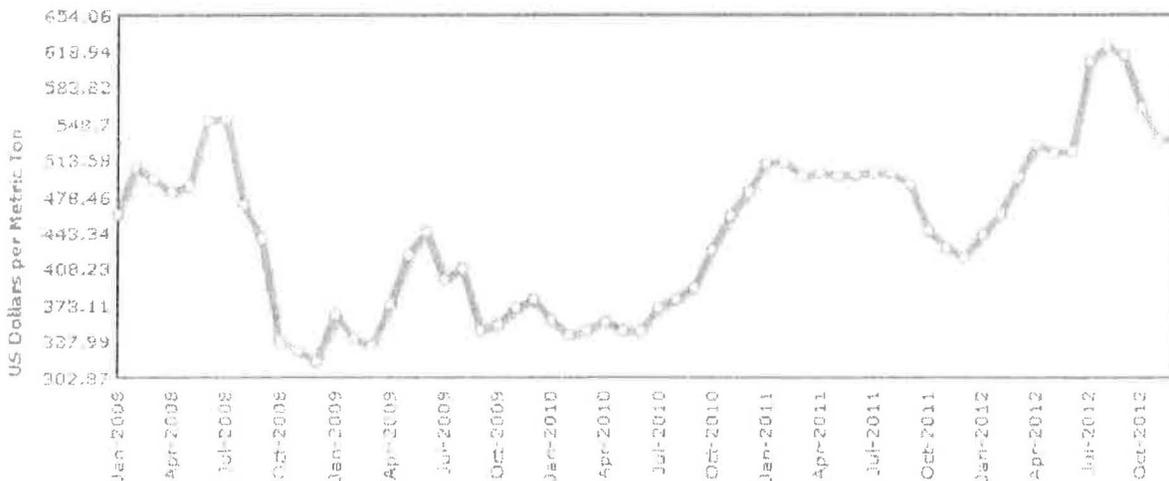
568.14

Soybeans, U.S. No. 2 Yellow, FOB Gulf of Mexico, U.S. price, US\$ per metric ton
 Price in US\$ per bushel: 15.4625
 As of: Friday, February 01, 2013
 Source: USDA Market News

Soybeans Monthly Price - US Dollars per Metric Ton

Range 6m 1y 5y 10y 15y 20y 25y 30y

Jan 2008 - Dec 2012: 73.070 (15.83 %)



Description: Soybeans, U.S. soybeans, Chicago Soybean futures contract (first contract forward) No. 2 yellow and par, US Dollars per Metric Ton

Unit: US Dollars per Metric Ton

Currency: US Dollar

Compare to: Nothing

Source: World Bank

See also: Agricultural production statistics

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PRICE OF SILVER PER OUNCE (IN USD)



Current Silver Price



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No. 11 Sugar Futures End of Day Settlement Price

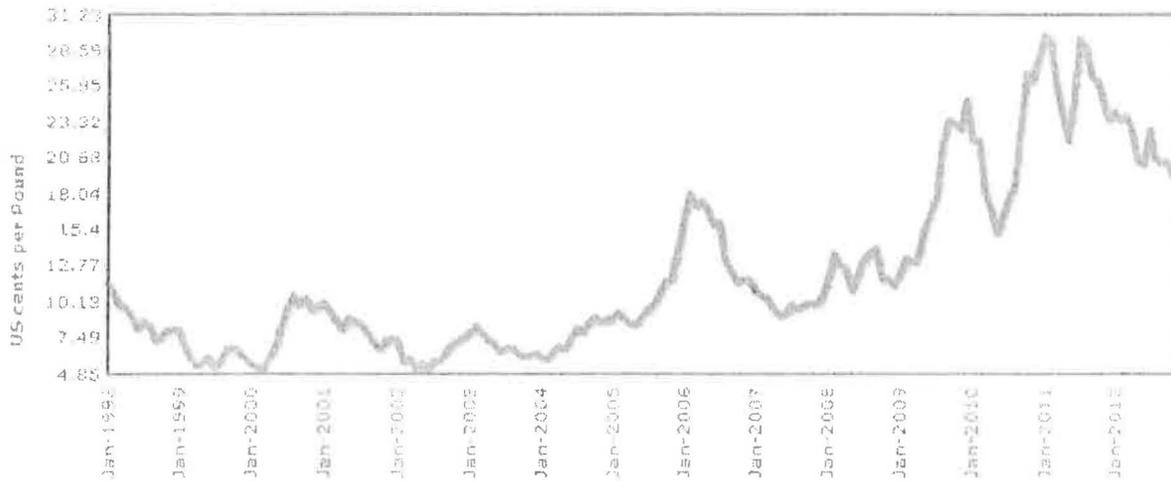
18.89

US cents per Pound	Open: 18.85	Change: 0.11
Price in U.S. Dollars per pound: 0.1889	High: 19.13	Estimated Volume: 13
Contract Month: MAR 13	Low: 18.85	Prior Day Open Interest: 45
As of: Friday, February 01, 2013	Last: 18.85A	Contract Specifications
Source: NYMEX - CME Group		

Sugar Monthly Price - US cents per Pound

Range 6m 1y 5y 10y 15y 20y 25y 30y

Jan 1998 - Dec 2012: 7.680 (66.67 %)



Description: Sugar, Free Market, Coffee Sugar and Cocoa Exchange (CSCE) contract no.11 nearest future position, US cents per Pound

Unit: US cents per Pound

Currency: US Dollar

Compare to: Nothing

Source: World Bank

See also: Agricultural production statistics

See also: Top commodity suppliers

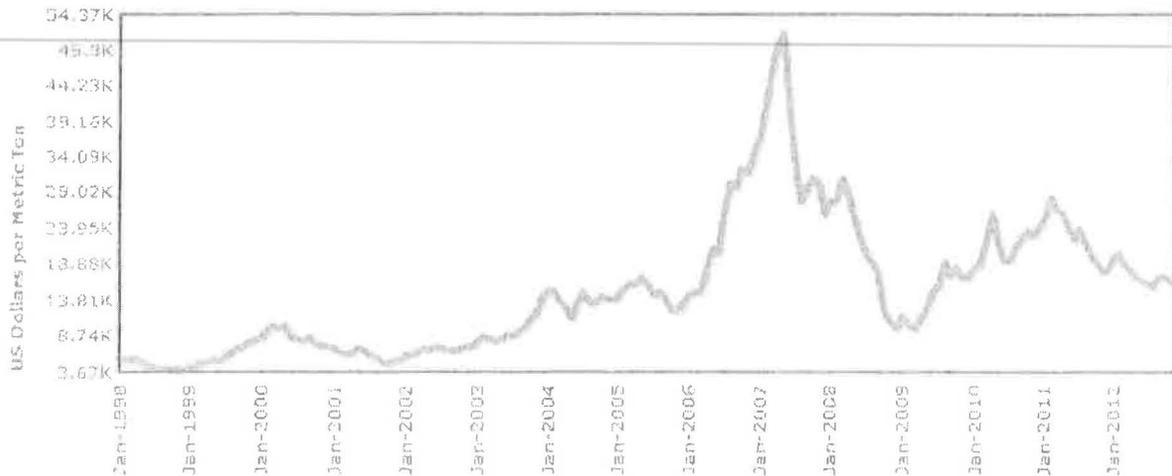
See also: Commodities glossary - Definitions of terms used in commodity trading

Month	Price	Change
Jan 1998	11.52	-
Feb 1998	10.72	-6.94 %
Mar 1998	9.84	-8.21 %

Nickel Monthly Price - US Dollars per Metric Ton

Range 6m 1y 5y 10y 15y 20y 25y 30y

Jan 1998 - Dec 2012: 11,959.500 (217.88 %)



Description: Nickel, melting grade, LME spot price, CIF European ports, US Dollars per Metric Ton

Unit: US Dollars per Metric Ton

Currency: US Dollar

Compare to: Nothing

Source: World Bank

See also: Mineral production statistics

See also: Top commodity suppliers

See also: Commodities glossary - Definitions of terms used in commodity trading

Month	Price	Change
Jan 1998	5,489.00	-
Feb 1998	5,367.25	-2.22 %
Mar 1998	5,397.05	0.56 %
Apr 1998	5,391.00	-0.11 %
May 1998	5,016.84	-6.94 %
Jun 1998	4,456.90	-11.16 %
Jul 1998	4,332.62	-2.79 %
Aug 1998	4,078.00	-5.88 %
Sep 1998	4,100.91	0.56 %
Oct 1998	3,870.45	-5.62 %
Nov 1998	4,117.25	6.38 %
Dec 1998	3,865.76	-6.11 %



North Carolina State Board of Certified Public Accountant Examiners

1101 Oberlin Road, Suite 104 • PO Box 12827 • Raleigh NC 27605 • (919) 733-4222 • Fax (919) 733-4209 • www.nccpaboard.gov

March 20, 2013

Mike Glynn, Senior Technical Manager
 American Institute of Certified Public Accountants
 AICPA Accounting and Review Services Committee
 1211 Avenue of the Americas
 New York, New York 10036-8775

Dear Mr. Glynn:

The North Carolina State Board of CPA Examiners (Board) has reviewed the Exposure Draft, Proposed Statements on Standards for Accounting and Review Services, *Review of Financial Statements* and *Review of Financial Statements – Special Considerations* prepared by the AICPA Accounting and Review Services Committee (ARSC). ARSC requested comments on changes resulting from applying the clarity drafting conventions and their effect on the content of the proposed SSARs. The Board believes that the newly adopted drafting conventions make the standards easier to read and follow. Specifically, the addition of application and other explanatory material helps accountants by providing additional content and illustrative examples to support the requirements. The presentation of separate review standards for the basic review engagement versus the review engagement with special considerations simplifies the guidance and allows for clearer distinction between review engagements scenarios. The Board offers the following comments:

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

This proposed standard addresses the accountant's responsibilities when engaged to review financial statements. By explicitly stating that an accountant should exercise professional judgment, the proposal clarifies the expectation of the accountant prior to engaging in the performance of any review services. The Board strongly supports the requirement of obtaining a *signed* engagement letter. An engagement letter establishes the scope of the engagement and ensures that services to be performed are correctly specified at the outset to avoid misunderstandings later on in the engagement. Paragraph 49 of the proposed standard requires the engagement letter to be included as part of the accountant's review documentation. The use of headings to more clearly

delineate accountant and management responsibilities as well as distinguish sections of the report enhances the readability of the report. In addition, the introduction of the term special purpose framework to SSARSs further aligns these standards with other reporting standards for accountants.

The Board concurs with the introduction of the *Emphasis-of Matter* and *Other-Matter* paragraphs into the accountant's review report formats. These paragraphs increase transparency in reporting by providing accountants with a means to emphasize or provide further clarification to matters that the accountants, in their professional judgment, consider fundamental to the users' understanding of the financial statements.

Proposed Statement on Standards for Accounting and Review Services, *Review of Financial Statements - Special Considerations*

This proposed standard addresses the accountant's responsibilities when engaged to review financial statements when there are special situations that must be addressed by the accountant. The standard builds on the previous proposed SSARS *Review of Financial Statements* by identifying situations where an accountant would be required to include an emphasis-of-matter or other-matter paragraph to more appropriately present the reviewed financial statements.

In discussing known departures from the applicable financial reporting framework, paragraph 12 states that "if the accountant believes that modification of the standard report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the review engagement and provide no further services with respect to those financial statements." Paragraph 13 prevents modification of the standard report to indicate that the financial statements are not in accordance with the applicable financial reporting framework because "such a statement would be tantamount to expressing an adverse opinion on the financial statements as a whole", an opinion that can only be expressed in the context of an audit engagement. While a review provides less assurance than an audit, both are considered attest engagements. The purpose of a review is to ensure that the financial statements are not misleading. Rather than withdrawing from a known erroneous situation, should consideration be given to an option to identify that the financial information is not presented in accordance with the applicable framework in the context of a review engagement?

Paragraphs 33 and 34 discuss information presented for supplementary analysis purposes that accompanies reviewed financial statements. The accountant is offered two reporting options – an *other-matter* paragraph in the accountant's review report on

the financial statements or a separate report on the information presented for ~~supplementary analysis purposes. If the supplementary analysis accompanies the~~ reviewed financial statements, a more simplified approach would be the use of an *other-matter* paragraph only. The latter option of a separate report appears cumbersome and would appear to require some linkage to the report on the reviewed financial statements to bring consistency to the reporting.

As an item of consideration, paragraph A16 recognizes that an accountant is not responsible for controlling, and cannot control, the distribution of the accountant's review report after its release. It further offers that the accountant *may*, in establishing terms of the engagement, obtain agreement from the entity as to the restricted parties for the distribution of the review report. Yet in paragraph A30, implications are that the accountant should notify anyone in receipt of reviewed financial statements that those financial statements need revision. The latter appears to conflict with the accountant's span of control, particularly if the expectation is for the accountant to notify those outside of the original restricted parties.

Implementation of Proposed Statement on Standards for Accounting and Review Services

The proposed standards would be effective for reviews of financial statements for periods ending on or after December 15, 2014, *with early implementation not permitted*. The Board would like to note that many accountants encountered peer review difficulties related to past standards updates, particularly due to early implementation of those updated standards. The fact that early implementation will not be permitted must be emphasized and sufficiently communicated in an effort to prevent such issues going forward.

The Board is appreciative of the opportunity to provide comments as part of the standard-setting process. The Board is also very appreciative of the AICPA's ARSC efforts to improve the technical standards that provide guidance to CPAs, bring clarity and consistency within the current standards, and make a positive impact on the reliability of the work performed by CPAs.

Sincerely,

Jose R. Rodriguez, CPA
President

EXPOSURE DRAFT

PROPOSED STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

REVIEW OF FINANCIAL STATEMENTS

REVIEW OF FINANCIAL STATEMENTS—SPECIAL CONSIDERATIONS

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

November 15, 2012

Comments are requested by April 26, 2013

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

Comments should be addressed to Mike Glynn at mglynn@aicpa.org.



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EXPLANATORY MEMORANDUM

Introduction

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

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

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

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

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

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

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

Background

Clarity

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

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

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

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

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

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

Convergence

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

Effective Date

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

Changes From Existing Standards

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

Scope

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

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

★
COMMUNICATE
PREVENT PERE REVIEW PROBLEMS

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

COMPONENTS
REVIEW

Requirement to Exercise Professional Judgment

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

REQUIRES
PROF JUDG

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

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

REQUIRES
ENG
LTR

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

Reporting on the Financial Statements

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

DIRECTION
REPORTING
CONTAINS IN

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

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

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

FORMERLY
ALSO A

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

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

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

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

More Useful
To Readers

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

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

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

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

Required Supplementary Information

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

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

- the required supplementary information is included and the accountant reviewed the required supplementary information.
- the required supplementary information is included and the accountant did not compile, review, or audit the required supplementary information.

- the required supplementary information is omitted.
- some required supplementary information is missing and some is presented in accordance with the prescribed guidelines.
- the accountant has identified departures from the prescribed guidelines.
- the accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.

Guide for Respondents

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

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

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

Supplements to the Exposure Draft

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

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

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

Comment Period

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

Accounting and Review Services Committee (ARSC)
(2012–2013)

Michael L. Brand, *Chair*
Chad M. Becnel
Jay H. Goldberg
Jefferey C. Lewis

Charles J. McElroy
Angie J. Moss
Thad Scott

ARSC Clarity Task Force
(2012–2013)

Charles J. McElroy, *Chair*
Michael L. Brand
Chad M. Becnel
Jay H. Goldberg

Jefferey C. Lewis
Angie J. Moss
Thad Scott

AICPA Staff

Charles E. Landes
Vice President
Professional Standards

Michael P. Glynn
Senior Technical Manager
Audit and Attest Standards
Staff Liaison—Accounting and
Review Services Committee

Richard I. Miller
Special Counsel

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

REVIEW OF FINANCIAL STATEMENTS

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

Introduction

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

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

COMPONENT DATA

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

USG INTERIM STANDARDS

Effective Date

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

Objectives

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

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

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Requirements

Acceptance

7. As a condition for accepting an engagement to review an entity's financial statements, the accountant should

ENGAGEMENT
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- a. determine whether preliminary knowledge of the engagement circumstances indicate that ethical requirements regarding professional competence will be satisfied.
- b. determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable.
- c. obtain the agreement of management that it acknowledges and understands its responsibility
 - i. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - ii. for the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework.
 - iii. to provide the accountant with
 - (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
 - (2) additional information that the accountant may request from management for the purpose of the review; and
 - (3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.
 - iv. to include the accountant's review report in any document containing financial statements that indicates that such financial statements have been reviewed by the entity's accountant. (Ref: par. A12)

8. If the accountant is not satisfied about any of the matters set out in paragraph 7 as preconditions for accepting a review engagement, the accountant should discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the accountant about those matters, the accountant should not accept the proposed engagement.

Agreement on Engagement Terms

9. The accountant should agree upon the terms of the engagement with management. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement and should include the following: (Ref: par. A13-A17)

- a. The objectives of the engagement
- b. The responsibilities of management set forth in paragraph 7(c)
- c. The responsibilities of the accountant
- d. The limitations of a review engagement
- e. Identification of the applicable financial reporting framework for the preparation of the financial statements

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

Professional Judgment

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

Understanding of the Industry

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

Knowledge of the Entity

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

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

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

Designing and Performing Review Procedures

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

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

Analytical Procedures

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

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

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

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

Investigating Results of Analytical Procedures

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

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

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

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

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

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

Reading the Financial Statements

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

Using the Work of Other Accountants

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

Reconciling the Financial Statements to the Underlying Accounting Records

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

Evaluating Evidence Obtained From the Procedures Performed

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

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

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

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

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

Written Representations

Written Representations as Review Evidence

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

Management From Whom Written Representations Are Requested

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

Specific Written Representations

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

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

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

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

Form of Written Representations

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

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

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

Reporting on the Financial Statements

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

Accountant's Review Report

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

Consistency
Appears
Frankly
Similar to
Audit

vi. includes a statement that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole, and that, accordingly, the accountant does not express such an opinion.

- d. a section with the heading "Management's Responsibility for the Financial Statements" that includes an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework. (Ref: par. A63)
- e. a section with the heading "Accountant's Responsibility" that includes the following statements:
- i. The accountant's responsibility is to conduct the review engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA. The accountant's review report should also explain that those standards require that the accountant perform the procedures to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework. (Ref: par. A64-A66)
 - ii. The accountant believes that the review evidence the accountant has obtained is sufficient and appropriate to provide a basis for the accountant's conclusion.
- f. a concluding section with an appropriate heading that includes a statement about whether the accountant is aware of any material modifications that should be made to the accompanying financial statements for them to be in accordance with the applicable financial reporting framework and that identifies the country of origin of those accounting principles, if applicable. (Ref: par. A40)
- g. the manual or printed signature of the accountant's firm.
- h. the city and state where the accountant practices. (Ref: par. A67)
- i. the date of the review report, which should be dated no earlier than the date on which the accountant completed procedures sufficient to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework including evidence that
- i. all the statements that the financial statements comprise, including the related notes, have been prepared and
 - ii. management has asserted that they have taken responsibility for those financial statements. (Ref: par. A68-A69)

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

USES SHOULD/REQUIRES
NO CONFUSION

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

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

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

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

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

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

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

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

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

- a contractual basis of accounting or

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

Comparative Financial Statements

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

Updating the Report

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

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

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

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

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

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

Review Documentation

Documentation of the Review Procedures Performed and the Review Evidence Obtained

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

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

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

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

Application and Other Explanatory Material

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

A1. Examples of other historical financial information that an accountant may be engaged to review include but are not limited to the following:

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

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

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

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

How DIFFERENTIATE
IN RESPECT
SPECIFY WHAT
REMOVED
↓
SUBJECT TO
FURTHER
CLARIFICATION
↓
ADDRESSING
COMPLICATIONS

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

Objectives (Ref: par. 5)

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

Materiality

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

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

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

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

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

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

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

Revising Materiality

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

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

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

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

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

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

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

A14. The roles of management and those charged with governance in agreeing upon the terms of the review engagement for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity's structure, the agreement may be with management, those charged with governance, or both. When the agreement on the terms of engagement is only with those charged with governance, nonetheless in accordance with paragraph 7(c), the accountant is required to obtain management's agreement that it acknowledges and understands its responsibilities.

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

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

A16. Although the accountant may prepare the financial statements, in whole or in part, the financial statements are representations of management, and the fairness of their presentation in accordance with the applicable financial reporting framework is management's responsibility.

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

Professional Judgment (Ref: par. 12)

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

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

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

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

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

Understanding of the Industry (Ref: par. 13)

A22. The requirement that the accountant possess a level of knowledge of the industry in which the entity operates does not prevent the accountant from accepting a review engagement for an entity in an industry with which the accountant has no previous experience. It does, however, place upon the accountant a responsibility to obtain the required level of knowledge. The accountant may do so, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals knowledgeable about the industry.

Knowledge of the Entity (Ref: par. 14)

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

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

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

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

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

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

Analytical Procedures (Ref: par. 18-19)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Written Representations

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

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

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

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

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

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

Specific Written Representations (Ref: par. 32)

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

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

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

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

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

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

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

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

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

Form of Written Representations (Ref: par. 34)

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

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

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

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

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

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

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

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

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

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

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

Title

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

Addressee

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

Introductory Paragraph

A60. The introductory paragraph states, for example, that the accountant has "reviewed the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements." If the financial statements include a separate statement of changes in stockholders' equity accounts or a separate statement of comprehensive income, paragraph 37(c)(iii) requires such statements to be identified in the introductory paragraph of the report as a statement to which the financial statements are comprised.

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

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

Management's Responsibility

A63. AR section 60, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*), explains the premise relating to the responsibilities of management and, when appropriate, those charged with governance on which an engagement in accordance with SSARs is conducted.¹ Management, and when appropriate, those charged with governance, accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the accountant's review report includes reference to both responsibilities because it helps explain to users the premise on which a review is conducted.

Accountant's Responsibility

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

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

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

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

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

Signature of the Accountant

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

Date of the Accountant's Review Report

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

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

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

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

A71. Terms such as *balance sheet*, *statement of financial position*, *statement of income*, *statement of operations*, and *statement of cash flows*, or similar unmodified titles, are generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP. Accordingly, the accountant is required by paragraph 38(a) to consider whether the financial statements are suitably titled, for example

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

— “Statement of Revenue and Expenses—Tax-Basis.”

- a financial statement prepared in accordance with a regulatory basis of accounting might be titled “Statement of Income—Regulatory Basis.”

A72. The description of how the special purpose framework differs from GAAP ordinarily only includes the material differences between GAAP and the special purpose framework. For example, if several items are accounted for differently in accordance with the special purpose framework than they would be in accordance with GAAP, but only the differences in how depreciation is calculated are material, a brief description of the depreciation differences is all that would be necessary, and the remaining differences need not be described. The differences need not be quantified.

A73. Financial statements prepared when applying a special purpose framework are not considered appropriate in form unless the financial statements include informative disclosures similar to those required by GAAP if the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.

A74. When the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, the accountant is required by paragraph 41 to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid misunderstandings when the financial statements are used for purposes other than those for which they were intended. The note to the financial statements may also describe any significant interpretations of the contract on which the financial statements are based.

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

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

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

Updating the Report

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

Other Considerations Relating to Comparative Financial Statements

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

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

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

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

BASED ON
MATERIALITY
DETERMINED
EARLIER

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

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

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

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

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

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

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

Review Documentation

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

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

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

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

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

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

A88.

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

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

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

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

A89.

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

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

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

A90.

Exhibit A—Illustrative Engagement Letter

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

To the appropriate representative of management of ABC Company:¹

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

[The objective of the review engagement]

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

[The responsibilities of the accountant]

We will conduct our review engagement in accordance with SSARSs.

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

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

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

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

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

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

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

- a. for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; and
- c. to provide us with access to all financial records and related information that we have requested.
- d. providing us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

[Other relevant information]

Our fees for these services. . .

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

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

[Reporting]

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

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

³ Use terminology as appropriate in the circumstances.

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

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and title]

[Date]



A91.

Exhibit B—Illustrative Representation Letter

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

(Entity Letterhead)

(To Accountant)

(Date)

This representation letter is provided in connection with your review of the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of obtaining limited assurance as a basis for reporting whether you are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America.

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

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

Financial Statements

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

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

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

Information Provided

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

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

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

[Name of Chief Executive Officer and Title]

[Name of Chief Financial Officer and Title]

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

A92.

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

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

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

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

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

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

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

Circumstances include the following:

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

Independent Accountant’s Review Report

[Appropriate Addressee]

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

Management’s Responsibility for the Financial Statements

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

Accountant’s Responsibility

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

Accountant’s Conclusion

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

[Signature of accounting firm or accountant, as appropriate]

[Accountant’s city and state]

[Date of the accountant’s review report]

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

Circumstances include the following:

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

Independent Accountant’s Review Report

[Appropriate Addressee]

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

Management’s Responsibility for the Financial Statements

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

Accountant’s Responsibility

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

Accountant’s Conclusion

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

[Signature of accounting firm or accountant, as appropriate]

[Accountant’s city and state]

[Date of the accountant’s review report]

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

Circumstances include the following:

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

Independent Accountant’s Review Report

[Appropriate Addressee]

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

Management’s Responsibility for the Financial Statements

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

Accountant’s Responsibility

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

Accountant’s Conclusion

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

Basis of Accounting

I (We) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the Partnership uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's review report]

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

Circumstances include the following:

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

Independent Accountant's Review Report

[Appropriate Addressee]

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

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

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

Accountant's Conclusion

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's review report]

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

REVIEW OF FINANCIAL STATEMENTS—SPECIAL CONSIDERATIONS

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

Introduction

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

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

Effective Date

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

Objectives

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

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

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other-Matter Paragraphs in the Accountant's Review Report

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

Communication With Management

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

Known Departures From the Applicable Financial Reporting Framework

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

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

LIKE QUALIFIED FORMAT

11. If the effects of the departure have not been determined by management or are not known to the accountant as a result of the accountant's procedures, the accountant is not required to determine the effects of a departure; however, in such circumstances the accountant should state in the report that such determination has not been made.

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

WHY NOT ISSUE ADVERSE?

13. The accountant should not modify the standard report to include a statement that the financial statements are not in accordance with the applicable financial reporting framework because such a statement would be tantamount to expressing an adverse opinion on the financial

disclaimer? No
Adverse? Maybe

- 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. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion regarding the financial statements as a whole.
- The engagement cannot be relied upon to disclose errors, fraud,² or illegal acts³
- 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 review procedures that fraud or an illegal act may have occurred.⁴ 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.

These matters should be communicated in the form of an engagement letter. An example of an engagement letter for a review of financial statements is presented in Review Exhibit A, "Illustrative Engagement Letter."

.05 An understanding with management or, if applicable, those charged with governance also may include other matters, such as the following:

- Fees and billings
- Any limitation of or other arrangements regarding the liability of the accountant or the client, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements)
- Conditions under which access to review documentation may be granted to others
- Additional services to be provided relating to regulatory requirements

.06 The engagement letter also should address the following additional matters if applicable:

- Material departures from the applicable financial reporting framework may exist, and the effects of those departures, if any, on the financial statements may not be disclosed.
- Reference to supplementary information.

² For purposes of this section, *fraud* is an intentional act that results in a misstatement in reviewed financial statements.

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

⁴ Whether an act is, in fact, fraudulent or illegal is a determination that is normally beyond the accountant's professional competence. An accountant, in reporting on financial statements, presents himself or herself as one who is proficient in accounting and review 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 as to 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.

WHY?

statements as a whole. Such an opinion can be expressed only in the context of an audit engagement.

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

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

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

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

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

Adding Other Specified Parties

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

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

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

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

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

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

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

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

Consideration of Financial Statement Effects

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

Consideration of the Effects on the Accountant's Review Report

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

Subsequent Events and Subsequently Discovered Facts

Subsequent Events

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

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

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

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

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

25. If management revises the financial statements, the accountant should perform the review procedures necessary in the circumstances on the revision. The accountant also should either

- a. date the accountant's review report as of a later date or
- b. include an additional date in the accountant's review report on the revised financial statements that is limited to the revision (that is, dual-date the accountant's review report for that revision), thereby indicating that the accountant's review procedures subsequent to the original date of the accountant's review report are limited solely to the revision of the financial statements described in the relevant note to the financial statements.

26. If management does not revise the financial statements in circumstances when the accountant believes they need to be revised, the accountant should modify the accountant's review report, as appropriate.

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

27. If a subsequently discovered fact becomes known to the accountant after the report release date, the accountant should (Ref: par. A25-A26)

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

28. If management revises the financial statements, the accountant should

- a. apply the requirements of paragraph 25.
- b. if the reviewed financial statements (before revision) have been made available to third parties, assess whether the steps taken by management are timely and appropriate to ensure that anyone in receipt of those financial statements is informed of the situation, including that the reviewed financial statements are not to be used. If management does not take the necessary steps, the accountant should apply the requirements of paragraph 30. (Ref: par. A27)
- c. if the accountant's review report on the revised financial statements differs from accountant's review report on the original financial statements, disclose in an emphasis-of-matter paragraph, in accordance with paragraphs 5-6,
 - i. the date of the accountant's previous report,
 - ii. a description of the revisions, and
 - iii. the substantive reasons for the revisions.

29. If management does not revise the financial statements in circumstances when the accountant believes they need to be revised, then

- a. if the reviewed financial statements have not been made available to third parties, the accountant should notify management and those charged with governance, unless all of those charged with governance are involved in managing the entity, not to make the

MUST COME TO
ATTENTION OF
ACCOUNTANT,
NOT GO,
LOOKING OR
MONITOR FOR?
HOW DOES THIS
HAPPEN?
EXAMPLES?

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

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

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

LEVEL OF
CONTROL THAT
ACCOUNTANT HAS?

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

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

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

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

Information Presented For Supplementary Analysis Purposes That Accompanies Reviewed Financial Statements

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

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

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

Required Supplementary Information

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

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

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

why?
CONFUSING
SAME REPORT

- a. A statement that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require that the [*identify the required supplementary information*] be presented to supplement the basic financial statements
 - ~~b. A statement that such information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context~~
 - c. A statement that the accountant did not compile, review, or audit the required supplementary information and, accordingly, does not express an opinion or provide any assurance on the information
 - d. If some of the required supplementary information is omitted, (Ref: par. A41)
 - i. a statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements
 - ii. a statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
 - e. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]
 - f. If the accountant has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that the accountant has doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [*identify designated accounting standards setter*]
37. If all of the required supplementary information is omitted, the other paragraph should include the following elements:
- a. A statement that management has omitted [*description of the missing required supplementary information*] that [*identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)*] require to be presented to supplement the basic financial statements
 - b. A statement that such missing information, although not a part of the basic financial statements, is required by [*identify designated accounting standards setter*], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

Change in Engagement From Audit to Review

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

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

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

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

LESSER REPORT

41. The report should not include reference to

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

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

Application and Other Explanatory Material

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

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

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

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

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

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

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

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

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

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

Other-Matter Paragraphs in the Accountant's Review Report

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

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

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

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

Communication With Management (Ref: par. 8)

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

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

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

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

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

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

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

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

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

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

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

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

#30
RELATED?

Illustrative Alert Language (Ref: par. 15)

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

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

Adding Other Specified Parties (Ref: par. 16)

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

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

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

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

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

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

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

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

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

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

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

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

Emphasis of Matter

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

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

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

Subsequent Events and Subsequently Discovered Facts

Subsequent Events (Ref: par. 22)

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

- a. During the performance of review procedures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Post a Notice
on Accountant's
Website?
Control vs.
New Control

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

STRENGTH OF
EVIDENCE?

SPAN OF
CONTROL
ISSUE

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

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

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

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

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

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

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

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

Other Matter

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

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

Other Matter

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

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

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

Required Supplementary Information

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

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

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

A40. Because the required supplementary information accompanies the basic financial statements, the accountant's review report on the financial statements includes a discussion of the responsibility taken by the accountant on that information. However, if the required supplementary information is omitted by the entity, the accountant does not have a responsibility to present that information.

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

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

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

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

A44.

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

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

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

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

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

Circumstances include the following:

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

Independent Accountant’s Review Report

[Appropriate Addressee]

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

Management’s Responsibility for the Financial Statements

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

Accountant’s Responsibility

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

Accountant’s Conclusion

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

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

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

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

or

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

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

[*Accountant's city and state*]

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

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

Circumstances include the following:

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

Independent Accountant's Review Report

[Appropriate Addressee]

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

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

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

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

Accountant's Conclusion

Based on my (our) review, and the report of other accountants, I am (we are) not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's review report]