Compilation of Financial Statements - Illustrative Engagement Letter (Not Intended For Third-Party Use)

Jim Gero
May 27, 2008

[Appropriate Salutation]:

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

We will perform the following services:

- We will compile, from information you provide, the annual [*and interim, if applicable*] balance sheet and related statements of income, retained earnings and cash flows of XYZ Company for the year 20XX.

- We will compile the financial statements and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. ***The objective of a compilation is to present in the form of financial statements, information that is the representation of management (owners) without undertaking to express any assurance on the financial statements.***

A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily perform in an audit. Therefore, a compilation does not provide a basis for expressing any level of assurance on the financial statements being compiled.

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

- As part of our engagement, we will also (list any non-attest services to be performed, if applicable, such as income tax preparation and bookkeeping services).

You are responsible for:

a. Making all management decisions and performing all management functions;

b. Designating an individual who possesses suitable skill, knowledge and/or experience – preferably within senior management – to oversee the services;

c. Evaluating the adequacy and results of the services performed;

d. Accepting responsibility for the results of the services; and

e. Establishing and maintaining internal controls, including monitoring ongoing activities.

If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

Our fees for these services …

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

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

Sincerely yours,

_____
[Signature of accountant]

Acknowledge:
XYZ Company

_____
President

_____
Date

Compilation of Financial Statements - Illustrative Engagement Letter (Not Intended For Third-Party Use)

Jim Gero
May 27, 2008

[Appropriate Salutation]:

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

We will perform the following services:

- We will compile, from information you provide, the [*monthly, quarterly, or other frequency]* financial statements of XYZ Company for the year 20XX.

- We will compile the financial statements in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. ***The objective of a compilation engagement is to present in the form of financial statements, information that is the representation of management (owners) without undertaking to express any assurance on the financial statements.***

A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for expressing any level of assurance on the financial statements being compiled.

The financial statements will not be accompanied by a report. Based upon our discussions with you, these statements are for management's use only and are not intended for third-party use.

Material departures from generally accepted accounting principles (GAAP) may exist, and the effects of those departures – if any – on the financial statements may not be disclosed. In addition, substantially all disclosures required by GAAP may be omitted (the accountant may wish to identify known departures). Notwithstanding these limitations, you represent that you have knowledge about the nature of the procedures applied, and the basis of accounting and assumptions used in the preparation of the financial statements, which allows you to place the financial information in the proper context. Further, you represent and agree that the use of the financial statements will be limited to members of management with similar knowledge.

The financial statements are intended solely for the information and use of [*include list of specified members of management*] and are not intended to be and should not be used by any other party - [*optional*].

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

We are not independent with respect to [*name of entity*] [*if applicable*].

As part of our engagement, we will also (list any non-attest services to be provided, if applicable, such as income tax preparation and bookkeeping services)

You are responsible for:

a. Making all management decisions and performing all management functions;

b. Designating an individual who possesses suitable skill, knowledge and/or experience (preferably within senior management) to oversee the services;

c. Evaluating the adequacy and results of the services performed;

d. Accepting responsibility for the results of the services; and

e. Establishing and maintaining internal controls, including monitoring ongoing activities.

The other data accompanying the financial statements are presented only for supplementary analysis purposes and will be compiled from information that is the representation of management, without audit or review. We do not express an opinion or any other form of assurance on such data - [*if applicable*].

Our fees for these services …

Should you require financial statements for third-party use, we would be pleased to discuss with you the requested level of service. Such engagement would be considered separate and not deemed to be part of the services described in this engagement letter.

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

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

Sincerely yours,

_____
[Signature of accountant]

Accepted and agreed to:
XYZ Company

_____
Title

_____
Date

Review of Financial Statements - Illustrative Engagement Letter

[Appropriate Salutation]

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

We will perform the following services:

We will review the financial statements of XYZ Company as of December 31, 20XX, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. ***The objective of a review engagement is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in accordance with generally accepted accounting principles.***

A review differs significantly from an audit of financial statements, in which the auditor provides reasonable assurance that the financial statements, taken as a whole, are free of material misstatement. A review does not contemplate obtaining an understanding of ***the entity's*** internal control, ***assessing fraud risk***, tests of 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)***; **and** other procedures ordinarily performed **in** an audit. **Accordingly,** a review does not provide assurance that we will become aware of all significant matters that would be disclosed in and audit. ***Therefore, a review provides only limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles***.

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

As part of our engagement, we will also (list any nonattest services to be provided, if applicable, such as income tax preparation and bookkeeping services).

You are responsible for:

a. Making all management decisions and performing all management functions;

b. Designating an individual, who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;

c. Evaluating the adequacy and results of the services performed;

d. Accepting responsibility for the results of the services; and

e. Establishing and maintaining internal controls, including monitoring ongoing activities.

As part of our review procedures, we will require certain written representations from management about the financial statements and matters related thereto.

If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

Our fees for these services …

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

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

Sincerely yours,

_____
[Signature of accountant]

Acknowledge:
XYZ Company

_____
President

_____
Date