



Agenda Item 2

Review Reporting Requirements

Objective of Agenda Item

To consider the reporting requirements for a review performed in accordance with AR-C section 90, *Review of Financial Statements* against the requirements for an auditor's report in accordance with auditing standards generally accepted in the United States of America (GAAS).

Background

At its meeting in November 2020, the ARSC directed that it would consider revising the reporting requirements for review engagements for consistency with the requirements in the auditing standards with respect to:

- management's and the accountant's responsibilities regarding consideration of the entity's ability to continue as a going concern and
- for the accountant's responsibility to perform the engagement with professional skepticism.

Staff prepared the matrix at Agenda item 2A to highlight the differences between an accountant's review report in accordance with AR-C section 90 vs. an auditor's report in accordance with GAAS.

Discussion with the ARSC

Management's Responsibility for Going Concern

Paragraph .32b of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* states that the *Responsibilities of Management for the Financial Statements* section of the auditor's report should describe management's responsibility for, when required by the applicable financial reporting framework, the evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern [*for the time period set by the applicable financial reporting framework, as applicable*].

The reporting requirements in AR-C section 90 are silent with respect to management's responsibility to evaluate the entity's ability to continue as a going concern. If AR-C section 90 was revised to require a description of management's responsibility to evaluate the entity's ability to continue as a going concern, the *Management's Responsibility for the Financial Statements* section of the accountant's review report may read as follows (new language is in **red boldface italics**):

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 includes 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about XYZ Company's ability to continue as a going concern for one year from the date the financial statements are issued (or available to be issued).

ARSC Consideration

Should the reporting requirements in AR-C section 90 be revised to require a description of management's responsibility to evaluate the entity's ability to continue as a going concern as described in the preceding section?

Accountant's Responsibility for the Review of the Financial Statements

There are several differences between the requirements in paragraphs .34-.37 of AU-C section 700 with respect to the auditor's responsibilities for the audit of financial statements and the requirements in paragraph .76 of AR-C section 90 with respect to the accountant's responsibility for the review of financial statements. To minimize the differences, the following edits to the illustrative accountant's review report are proposed:

- The required section heading "Accountant's Responsibility" would be revised to read "Accountant's Responsibility for the Review of Financial Statements"
- The following sentences at the end of the introductory paragraph would be moved to the "Accountant's Responsibility for the Review of Financial Statements" section:

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.

- Include a statement that part of the accountant's objective is to issue an accountant's review report that includes the accountant's conclusion
- Include a description of limited assurance

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- Include a statement that the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Include a statement that misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements
- Include a statement that, in performing a review in accordance with SSARs, the accountant's responsibilities are to exercise professional judgment and maintain professional skepticism throughout the review
- Include a statement that, in performing a review in accordance with SSARs, the accountant's responsibilities are to obtain knowledge about the entity, including obtaining an understanding of the entity's business and the accounting principles and practices used by the entity
- Include a statement that the accountant is required to communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review engagement that, in the accountant's professional judgment, are of significant importance to merit the attention of management or those charged with governance, as appropriate.

If the reporting requirements in AR-C section 90 were revised with respect to the accountant's responsibilities for the review of financial statements, the introductory paragraph and the *Accountant's Responsibility* section of the accountant's review report may read as follows (new language is in **red boldface italics** deleted language is in ~~red strikethrough~~):

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets 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, and the related notes to the financial statements. ~~A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.~~

...

Accountant's Responsibility for the Review of the Financial Statements

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 AICPA. Those standards require me (us) ~~to perform procedures~~ to obtain limited assurance, ***primarily by performing analytical***

procedures on management (owner's) financial data and making inquiries of company management (owners), 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 and to issue an accountant's review report that includes my (our) conclusion. Limited assurance is a level of assurance that is less than the reasonable assurance obtained in an audit engagement but is at an acceptable level as a basis for the conclusion expressed in my (our) review report. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing a review in accordance with SSARs, we

- Exercise professional judgment and maintain professional skepticism throughout the review.*
- Obtain knowledge about the entity, including an understanding of the entity's business and the accounting principles and practices used by the entity.*

We are required to communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review engagement that, in my (our) professional judgment, are of significant importance to merit the attention of management or those charged with governance..

While I (we) do not express an opinion, I (~~We-we~~) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

We are required to be independent of XYZ Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

ARSC Consideration

Should the reporting requirements in AR-C section 90 with respect to the accountant's responsibility be revised as described in the preceding section?

Next Steps

If the ARSC directs that the reporting requirements for a review of financial statements should be revised, a draft of proposed revisions to AR-C section 90 will be presented to the ARSC at its next meeting (to be scheduled at the ARSC meeting). At that subsequent meeting, the ARSC may be asked to vote to expose the proposed revisions for public comment.

Agenda Items Presented:

Agenda item 2A Comparison of reporting requirements between AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* and AR-C section 90, *Review of Financial Statements*