



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*

| Reporting Requirements AU-C section 700 (Requirements that would be relevant in a review report but are not explicitly required are in red) | Reporting Requirements AR-C section 90 | Illustrative “Standard” Auditor’s Report | Illustrative “Standard” Accountant’s Review Report | Notes |
|--|--|---|--|-------|
| .21 The auditor’s report should be in writing. | .75 The accountant’s review report should be in writing. | | | |
| .22 The auditor’s report should have a title that clearly indicates that it is the report of an independent auditor. | .76 The written review report should include the following: a. A title that includes the word <i>independent</i> to clearly indicate that it is the report of an independent accountant for a review engagement. | <u>Independent Auditor’s Report</u> | <u>Independent Accountant’s Review Report</u> | |

Comparison Between AU-C section 700 and AR-C section 90 Reporting Requirements – May 2021
ARSC Meeting, May 24, 2021

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|--|---|--|---|--|
| .23 The auditor’s report should be addressed, as appropriate, based on the circumstances of the engagement. | b. An addressee, based on the circumstances of the engagement. | [Appropriate Addressee] | [Appropriate Addressee] | |
| <p>.24 The first section of the auditor’s report should include the auditor’s opinion and should have the heading "Opinion."</p> <p>.25 The "Opinion" section of the auditor’s report should also do the following:</p> <p>a. Identify the entity whose financial statements have been audited.</p> <p>b. State that the financial statements have been audited.</p> | <p>c. An introductory paragraph that</p> <p>i. identifies the entity whose financial statements have been reviewed,</p> <p>ii. states that the financial statements identified in the</p> | <p>Opinion</p> <p>We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, 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.</p> | <p>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,</p> | <p>The description of what the engagement entails is included in the <i>Auditor’s Responsibilities for the Audit of the Financial Statements</i> section of the standard auditor’s report.</p> |

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| <p>c. Identify the title of each statement that the financial statements comprise.</p> <p><i>d. Refer to the notes.</i></p> <p>e. Specify the dates of or periods covered by each financial statement that the financial statements comprise.</p> | <p>report were reviewed,</p> <p>iii. identifies the financial statements,</p> <p>iv. specifies the date or period covered by each financial statement,</p> <p>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</p> | | <p>I (we) do not express such an opinion.</p> | |

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| | <p>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.</p> | | | |
| <p>.26 When expressing an unmodified opinion on financial statements, the auditor’s opinion should state that, in the auditor’s opinion, the accompanying financial statements present fairly, in all material respects, [...] in</p> | <p>f. A concluding section with an appropriate heading that includes the accountant’s conclusion on the financial statements in accordance with paragraphs .67-.74, as</p> | <p>In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting</p> | <p>Accountant’s Conclusion Based on my (our) reviews, 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</p> | <p>The Accountant’s Conclusion section of the standard accountant’s review report is included at the end of the report.</p> |

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| <p>accordance with [<i>the applicable financial reporting framework</i>].</p> <p>.27 The auditor’s opinion should identify the applicable financial reporting framework and its origin.</p> | <p>appropriate, and that identifies the country of origin of the financial reporting framework, if applicable</p> | <p>principles generally accepted in the United States of America.</p> | <p>principles generally accepted in the United States of America.</p> | |
| <p>.28 The auditor’s report should include a section, directly following the "Opinion" section, with the heading "Basis for Opinion," that does the following:</p> <p style="padding-left: 20px;">a. States that the audit was conducted in accordance with generally accepted auditing standards and identifies the United States of America as the country of origin of those standards</p> | | <p><i>Basis for Opinion</i></p> <p>We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence</p> | | |

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| <p><i>b.</i> Refers to the section of the auditor’s report that describes the auditor’s responsibilities under GAAS</p> <p><i>c.</i> Includes a statement that the auditor is required to be independent of the entity and to meet the auditor’s other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit</p> <p><i>d.</i> States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion</p> | | <p>we have obtained is sufficient and appropriate to provide a basis for our audit opinion.</p> | | |

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| <p>.31 The auditor’s report should include a section with the heading "Responsibilities of Management for the Financial Statements."</p> <p>.32 This section of the auditor’s report should describe management’s responsibility for the following:</p> <p style="padding-left: 20px;">a. The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements</p> | <p>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 relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.</p> | <p><i>Responsibilities of Management for the Financial Statements</i></p> <p>Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.</p> <p>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 ABC Company’s ability to continue as a going concern for <i>[insert the</i></p> | <p><i>Management’s Responsibility for the Financial Statements</i></p> <p>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.</p> | |

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| <p>that are free from material misstatement, whether due to fraud or error</p> <p><i>b.</i> 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 [<i>for the time period set by the applicable financial reporting framework, as applicable</i>].</p> | | <p><i>time period set by the applicable financial reporting framework</i>].</p> | | |
| <p>.34 The auditor’s report should include a section with the heading “Auditor’s</p> | <p><i>e.</i> A section with the heading “Accountant’s Responsibility” that</p> | <p><i>Auditor’s Responsibilities for the Audit of the Financial Statements</i></p> | <p><i>Accountant’s Responsibility</i> My (Our) responsibility is to conduct the review engagements in</p> | <p>Included in “Basis for Opinion” section of the auditor’s report.</p> |

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| <p>Responsibilities for the Audit of the Financial Statements.”</p> <p>.35 This section of the auditor’s report should do the following:</p> <ul style="list-style-type: none"> a. State that the objectives of the auditor are to <ul style="list-style-type: none"> i. obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and ii. issue an auditor’s report that includes the auditor’s opinion. | <p>includes the following statements:</p> <ul style="list-style-type: none"> 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 | <p>Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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.</p> | <p>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 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 my (our) conclusion.</p> <p>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.</p> | <p>Included in “Basis for Opinion” section of the auditor’s report.</p> |

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| <p><i>b.</i> State that reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.</p> <p><i>c.</i> State 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.</p> | <p>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.</p> <p>ii. The accountant believes that the results of the accountant’s procedures provide a reasonable basis for the accountant’s conclusion.</p> | <p>In performing an audit in accordance with GAAS, we:</p> <ul style="list-style-type: none"> • Exercise professional judgment and maintain professional skepticism throughout the audit. • Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. • Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company’s internal control. | | |

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| <p><i>d.</i> State 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.</p> <p>.36 The "Auditor’s Responsibilities for the Audit of the Financial Statements" section of the auditor’s report should further describe an</p> | <p>iii. The accountant is required to be independent of the entity and to meet the accountant’s other ethical responsibilities, in accordance with the relevant ethical requirements relating to the review.</p> | <p>Accordingly, no such opinion is expressed.^{fn 2}</p> <ul style="list-style-type: none"> • Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements. • Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue | | |

^{fn 8} Paragraph .02 of section 320, *Materiality in Planning and Performing an Audit*.

^{fn 2} In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company’s internal control. Accordingly, no such opinion is expressed."

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| <p>audit by stating that, in performing an audit in accordance with GAAS, the auditor’s responsibilities are to:</p> <ul style="list-style-type: none"> a. Exercise professional judgment and maintain professional skepticism throughout the audit. b. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts | | <p>as a going concern for a reasonable period of time.</p> <p>We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.</p> | | |

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| <p>and disclosures in the financial statements.</p> <p>c. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, no such opinion is expressed.</p> <p>In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial</p> | | | | |

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| <p>statements, the auditor should omit the following: "but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, no such opinion is expressed."</p> <p><i>d.</i> Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.</p> <p><i>e.</i> Conclude whether, in the auditor’s judgment, there are conditions or events, considered in</p> | | | | |

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| <p>the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time.</p> <p>.37 The "Auditor’s Responsibilities for the Audit of the Financial Statements" section of the auditor’s report should also state that the auditor is required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that the auditor identified during the audit.</p> | | | | |

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| <p>.41 The auditor’s report should include the manual or printed signature of the auditor’s firm.</p> <p>.42 The auditor’s report should name the city and state where the auditor’s report is issued.</p> <p>.43 The auditor’s report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements, including evidence of the following:</p> <ul style="list-style-type: none"> a. All the statements and disclosures that the financial statements comprise have been prepared. b. Management has asserted that it has | <ul style="list-style-type: none"> h. The signature of the accountant or the accountant’s firm. i. The city and state where the accountant practices. j. The date of the review report, which should be dated no earlier than the date on which the accountant has obtained sufficient appropriate review evidence as the basis for the accountant’s conclusion on the financial statements, including being satisfied that <ul style="list-style-type: none"> i. all the statements that the financial statements comprise, | <p>[Signature of the auditor’s firm]</p> <p>[City and state where the auditor’s report is issued]</p> <p>[Date of the auditor’s report]</p> | <p>[Signature of accounting firm or accountant, as appropriate]</p> <p>[Accountant’s city and state]</p> <p>[Date of the accountant’s review report]</p> | |

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| <p>taken responsibility for those financial statements.</p> | <p>including the related notes, have been prepared and</p> <p>ii. management has asserted that it has taken responsibility for those financial statements.</p> | | | |

If the ARSC were to revise the requirements for the accountant's review report to incorporate the **items in red** in the preceding table, the accountant's review report may look like the following (new language is in **boldface italics** and deleted language is in ~~strikethrough~~).

Independent Accountant's Review Report

[Appropriate Addressee]

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.~~

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).

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 high level of assurance that is obtained in an audit engagement in order to express an opinion regarding the financial statements as a whole 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 SSARSs, 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, as appropriate.

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.

Accountant’s Conclusion

Based on my (our) reviews, 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~~ City and state where the accountant’s report is issued]

[Date of the accountant’s review report]