PacificCPE

COURSE
21854A

Financial Statement Reviews Under AR-C Section 90

Review engagements offer limited assurance—and AR-C Section 90 sets the rules for performing them properly. This course covers the core requirements for conducting a review of financial statements, including the accountant's responsibilities, analytical procedures, inquiry processes, and reporting obligations. If you perform review engagements or want to better understand how they differ from audits and compilations, this course provides the practical grounding you need to work confidently under these standards.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize the type of information on which an accountant may or may not perform a review engagement under AR-C 90.
- Identify requirements to be satisfied to perform a review engagement under AR-C 90.
- Identify the date as of which management representations should be made in a management representation letter for a review engagement.
- Recognize an appropriate title that can be used for a review report under SSARS No. 21.
- Identify the order in which certain report paragraphs should be placed in the review report.
- Recognize the definition of a reasonable period of time in evaluating going concern.
- Recall some of the items that should be documented in a review engagement.

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Section 5.1

SECTION V: AR-C SECTION 90-REVIEW OF FINANCIAL STATEMENTS

Chapter Objective

After completing this section, you should be able to:

- Recognize the type of information on which an accountant may or may not perform a review engagement under AR-C 90.
- Identify requirements to be satisfied to perform a review engagement under AR-C 90.
- Identify the date as of which management representations should be made in a management representation letter for a review engagement.
- Recognize an appropriate title that can be used for a review report under SSARS No. 21.
- Identify the order in which certain report paragraphs should be placed in the review report.
- Recognize the definition of a reasonable period of time in evaluating going concern.
- Recall some of the items that should be documented in a review engagement.

I. AR-C SECTION 90: REVIEW OF FINANCIAL STATEMENTS

A. INTRODUCTION

Although a significant portion of the previous rules related to review engagements that were found in AR 90 remain intact, AR-C 90 does, in fact, make several important changes. Some are subtle, while others are far more explicit, such as a change to the review report.

AR-C 90 of SSARS No. 21 provides the authority for performing a review engagement under the SSARSs. Since its issuance, AR-C 90 of SSARS No. 21 has been amended by the issuance of SSARS Nos. 22-25.

In February 2020, the ARSC issued SSARS No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*.

SSARS No. 25 makes numerous amendments to AR-C 90, many of which are not substantive and not addressed in this section.

Following are the *key amendments* made to AR-C 90 which are made by SSARS No. 25 and which are identified throughout this section of the course.

Key amendments made to AR-C 90 by SSARS No. 25:

1. Provides a new specific requirement in a review engagement for an accountant to *determine materiality for the financial statements* as a whole and apply this materiality in designing the procedures and evaluating the results obtained from those procedures.
2. Allows for an accountant to issue a review report with a *modified conclusion (qualified or adverse conclusion)* when financial statements are materially and/or pervasively misstated.
3. Amends the standard review report in the *Accountant's Responsibility* section to include a statement that the accountant is *required to be independent* of the entity and to *meet the accountant's other ethical responsibilities*.
4. Expands some of the guidance in review engagements related to evaluating and reporting on going concern.
5. Clarifies that an accountant must obtain an engagement letter in a review engagement "prior to performing the engagement."
6. Changes some of the representations that should be included in the management's representation letter in a review engagement.
7. Expands some of the inquiries an accountant should make as part of a review engagement.
8. Introduces guidance on an accountant's professional skepticism in a review engagement.

Each of these changes is highlighted and discussed in this section of the course.

B. SCOPE OF AR-C 90- REVIEW ENGAGEMENTS

SSARS No. 21's AR-C 90, as amended, establishes the scope for the application of AR-C 90 to review engagements.

1. AR-C 90 applies when an accountant is engaged (hired) to perform a review of:
    a) Financial statements
    b) Historical financial information (exclusive of pro forma information)[1]

        Examples of other historical financial information for which 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, and
        - Financial information contained in a tax return.

Note

The accountant may perform a review engagement on a single financial statement, such as a balance sheet, and not on 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.

In reviewing the list of financial information for which an accountant may perform a review engagement, that list *does not include prospective information*. An accountant is permitted to perform a preparation or compilation engagement on prospective information but is not permitted to review prospective information. The primary reason is because it is difficult to provide limited assurance on prospective information.

2. AR-C 90 *does not apply* when the accountant is engaged to review interim financial information in accordance with AU-C 930, *Interim Financial Information*, which applies when:
   a) The entity's latest annual financial statements have been audited by the accountant or a predecessor
   b) The accountant either:
      • Has been engaged to audit the entity's current year financial statements, or
      • 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
   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.

C. EFFECTIVE DATE

AR-C 90 was effective for reviews of financial statements for periods *ending on or after December 15, 2015*.

D. OBJECTIVE

AR-C 90 carries over from previous review standards the general objective of a review engagement.

1. In conducting a review of financial statements, the objectives of the accountant are to:
   a) Obtain *limited assurance*, primarily by performing analytical procedures and inquires, 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.

b) Report on the financial statements as a whole and communicate as required by this section.

E. DEFINITIONS

For purposes of AR-C 90 of SSARS No. 21, the following additional 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.

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 the *Compliance with Standards Rule* (AICPA, *Professional Standards*, ET sec. 1.310.001), and the *Accounting Principles Rule* (AICPA, *Professional Standards*, ET sec. 1.320.001), of the AICPA Code of Professional Conduct.

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.

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 has practical review experience, and a reasonable understanding of

a) Review processes;

b) SSARSs and 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 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.[2]

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

Historical financial information: Information expressed in financial terms regarding a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Inquiry: Inquiry consists of seeking information of knowledgeable persons within or outside the entity.

Limited assurance: A level of assurance that is less than the reasonable assurance obtained in an audit engagement, but it is at an acceptable level as the basis for the conclusion expressed in the accountant's review report.

Misstatement: A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Misstatements can arise from fraud or error. Misstatements also include those adjustments of amounts, classifications, presentations, or disclosures that, in the accountant's professional judgment, are necessary for the financial statements to be presented fairly, in all material respects.

Modified conclusion: A qualified conclusion or an adverse conclusion.

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.

Other-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 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.

Pervasive: A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements. Pervasive effects on the financial statements are those that, in the accountant's judgment:

- Are not confined to specific elements, accounts, or items of the financial statements

- If so confined, represent or could represent a substantial portion of the financial statements, or
- With regard to disclosures, are fundamental to users' understanding of the financial statements.

Professional skepticism: An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of review evidence.

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

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 obtaining limited assurance. Review evidence includes both information contained in the accounting records underlying the financial statements and other information, which primarily consists of the results of analytical procedures and inquiries. Sufficiency of review evidence is the measure of the quantity of review evidence. Appropriateness of review evidence is the measure of the quality of review evidence, that is, its relevance and reliability in providing support for the conclusions on which the accountant's review report is based.

Sufficient appropriate review evidence, consisting primarily of the results of the accountant's analytical procedures and inquiries, is required to obtain limited assurance to support the accountant's conclusion. Review evidence is cumulative in nature and primarily obtained from the procedures performed during the course of the review. The combination of the nature, timing, and extent of evidence-gathering procedures is limited compared to an audit engagement.

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- review: 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.[3]