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COURSE
21855A

Going Concern Considerations in Review Engagements

When substantial doubt arises about a client's ability to continue as a going concern, accountants need to know exactly how to respond. Updated by SSARS No. 24, this course examines the conditions and events that trigger going concern concerns, reviews examples of management plans that may mitigate substantial doubt, and explains how accountants should handle these situations within a review engagement. A must for practitioners who want to navigate going concern scenarios with confidence and meet current reporting expectations.

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

Start Course ↓

Final Exam Copy ↓

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.

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Section 5.2

V. REPORTING ON THE FINANCIAL STATEMENTS

SSARS No. 21, AR-C 90 made significant changes to the review report to make its format more in line with the version of the audit report under the new auditing standards. Further changes have been made by SSARS Nos. 24 and 25 and are reflected in this section and in the illustrative reports that follow.

Reporting: Forming the Accountant's Conclusion on the Financial Statements

1. In forming the conclusion on the financial statements, the accountant should do the following:
   a) Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.
   b) Consider whether, in the context of the requirements of the applicable financial reporting framework and the results of procedures performed:
      - The terminology used in the financial statements, including the title of each financial statement, is appropriate
      - The financial statements adequately disclose the significant accounting policies selected and applied
      - The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate
      - Accounting estimates made by management appear reasonable
      - The information presented in the financial statements appears relevant, reliable, comparable, and understandable, and
      - The financial statements provide adequate disclosures to enable the intended users to understand the effects of material transactions and events on the information conveyed in the financial statements.

Note

SSARS No. 25 adds language to state that a description of the applicable financial reporting framework that contains *imprecise qualifying or limiting language* (for example, "the financial statements are in substantial compliance with accounting principles generally accepted in the United States") is not an adequate description of that framework because it may mislead users of the financial statements.

2. The accountant should consider the impact of the following:

a) Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole, and

b) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

3. The accountant's consideration should also include the following:

a) The overall presentation, structure, and content of the financial statements.

b) Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Reporting: Management Bias and Whether Financial Statements are Materially Misstated

SSARS No. 25 adds language to AR-C 90 stating that an accountant who is forming a conclusion on the financial statements during a review engagement may become aware of possible *bias in management's judgments*, and should do the following: **(NEW per SSARS No. 25)**

1. The accountant should consider the qualitative aspects of the entity's accounting practices, including indicators of *possible bias* in management's judgments.
2. The accountant may conclude that the cumulative effect of a lack of neutrality, together with the effect of apparent uncorrected misstatements, causes the financial statements as a whole to be *materially misstated.*
3. Indicators of a *lack of neutrality (bias)* that may affect the accountant's evaluation of whether the financial statements as a whole may be materially misstated include the following:

a) The selective correction of apparent misstatements brought to management's attention during the review (for example, correcting misstatements with the effect of increasing reported earnings but not correcting misstatements that have the effect of decreasing reported earnings), and

b) Possible management bias in the making of accounting estimates.

Note

SSARS No. 25 states that indicators of possible management bias do not necessarily mean there are misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the accountant's consideration of whether the financial statements as a whole may be materially misstated.

Form of the Conclusion

SSARS No. 25 *changes the types of reporting options* in a review engagement to make them more aligned with those options in an audit engagement. **(NEW per SSARS No. 25)**

1. The three reporting options in a review engagement after SSARS No. 25 amendments follow:
   a) Unmodified conclusion (standard review report conclusion on limited assurance)
   b) Modified conclusion, consisting of either a (an):
      • Qualified conclusion
      • Adverse conclusion

Unmodified Conclusion

The unmodified conclusion is nothing more than the standard limited assurance conclusion found in a review report.

1. The accountant should express an *unmodified conclusion* in the accountant's review report on the financial statements as a whole when:

   The accountant has obtained *limited assurance* to be able to conclude that nothing has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, *in all material respects*, in accordance with the applicable financial reporting framework.

2. When the accountant expresses an unmodified conclusion, the accountant should, unless required by law or regulation, use the following language:

   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 for them to be in accordance with [the applicable financial reporting framework].

Modified Conclusion

A modified conclusion is either a qualified conclusion or an adverse conclusion.

1. The accountant should express a modified conclusion (either a qualified conclusion or an adverse conclusion) in the accountant's review report on the financial statements as a whole when the accountant determines, based on the procedures performed and the review evidence obtained, that the *financial statements are materially misstated*.
   a) The determination of whether a qualified conclusion or adverse conclusion should be issued depends on the degree to which the financial statements are materially misstated.
2. If the accountant, having obtained sufficient appropriate review evidence, determines, or is otherwise aware, that the *financial statements are materially misstated*, the accountant should express one of the following modified conclusions:

   Qualified conclusion: When the accountant concludes that the effects of the matter or matters giving rise to the *modification are material but not pervasive* to the financial statements

Adverse conclusion: When the accountant concludes that the effects of the matter or matters giving rise to the *modification are both material and pervasive* to the financial statements

3. When the accountant modifies the conclusion expressed on the financial statements (either a Qualified Conclusion or an Adverse Conclusion), the accountant should do the following to *two paragraphs in the accountant's review report*:

   a) *Basis for conclusion paragraph*:

   Provide a description of the matter giving rise to the modification in a *separate paragraph* immediately before the conclusion paragraph in the accountant's review report under a heading as follows:

   "Basis for Qualified Conclusion," or

   "Basis for Adverse Conclusion,"

   b) *Conclusion paragraph*:

   Use the heading in the *conclusion paragraph* in the accountant's review report:

   "Qualified Conclusion" or

   "Adverse Conclusion,"

4. When the accountant expresses a *qualified conclusion* on the financial statements because of a material misstatement, the accountant should, unless otherwise required by law or regulation, use the following language in the *qualified conclusion paragraph*:

   Qualified Conclusion

   Based on my (our) review, *except for the effects of the matter(s) described in the Basis for Qualified Conclusion 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 [the applicable financial reporting framework].

5. When the accountant expresses an *adverse conclusion* on the financial statements, the accountant should, unless otherwise required by law or regulation, use the following language in the *adverse conclusion paragraph*:

   Adverse Conclusion

   Based on my (our) review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements are not in accordance with

   [the applicable financial reporting framework].

6. In the Basis for Conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the accountant should do the following:

a) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures) and the effects of the departure on the financial statements have been determined by management or are known to the accountant as a result of the accountant's procedures.

Note

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 the departure; however, in such circumstances, the accountant should state in the report that such determination has not been made by management.

b) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures.

c) Describe the nature of omitted information if the material misstatement relates to the nondisclosure of information required to be disclosed. The accountant should include the omitted disclosures when practicable to do so.

7. Unless prohibited by law or regulation, the accountant may determine it appropriate to withdraw from the engagement when the accountant has determined, based on the procedures performed and the review evidence obtained, that the financial statements are materially misstated.

Accountant's Review Report

SSARS Nos. 24 and 25 make changes to the accountant's review report. The changes made by SSARS No. 24 are integrated into this section while one key change made by SSARS No. 25 is highlighted.

Following is a summary of the requirements of the review report.

1. The accountant's review report should be in writing and may be issued in a hard copy format or electronic medium.
2. The accountant *may consider* including (but is not required to include) 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."

Note

Previous AR 90 required than an accountant include a reference (legend) on each page of the reviewed financial statements such as "See Independent Accountant's Review Report." In AR-C 90, this requirement is eliminated even though it is recommended that the accountant include the reference on each page of the reviewed financial statements. A similar change was made for compiled financial statements where the reference to the compilation report is no longer required.

One reason why the reference (legend) is no longer mandatory for either a compilation or review engagement is because the financial statements are the responsibility of management, and not the accountant. Thus, the accountant really has no authority to require that the financial statements include a reference/legend. If the accountant does, in fact, want a legend on each page of the reviewed financial statements, the accountant should include that requirement in the engagement letter.

3. When the accountant is unable to perform the inquiry, analytical procedures, and other review procedures the accountant considers necessary in the review engagement, or management does not provide the accountant with a representation letter, the review will be incomplete.
   a) A review that is incomplete does not provide an adequate basis for issuing a review report.
4. The written review report should include the following elements:
   a) A title that includes the word independent to clearly indicate that it is the report of an independent accountant for a review report.

   b) An appropriate title would be "*Independent Accountant's Review Report*."

Note

If an accountant is reporting on comparative financial statements and the service performed on the financial statements is different from year to year (e.g., one year is reviewed and one year is compiled), the report title may be generic such as "Independent *Accountant's Report."*

   c) An addressee based on the circumstances of the engagement.

   d) An introductory paragraph that:

   - Identifies the entity whose financial statements have been reviewed,
   - States that the financial statements identified in the report were reviewed,
   - Identifies the financial statements, included the related notes,[14]

- Specifies the date or period covered by each financial statement,
- 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
- 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.

e) 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*.[15]

f) A section with the heading *"Accountant's Responsibility"* that includes the following statements:

- 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.
- The accountant believes that results of the accountant's procedures provide a reasonable basis for the accountant's conclusion.
- **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. (NEW per SSARS No. 25)**[16]

New language inserted into the Accountant's Responsibility section (per SSARS No. 25)

"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."