

**Accounting and Review Services Committee
Meeting Highlights
January 5-7, 2016**

Committee members present:

Mike Fleming, Chair
Denny Ard
Sheila Balzer
Jimmy Burkes
Jeremy Dillard
Aron Dunn
Kelly Hunter

AICPA staff present:

Doug Bowman – Senior Technical Manager, Accounting & Auditing Publications (on January 5-6 only)
Mike Glynn – Senior Technical Manager, Audit & Attest Standards; Staff Liaison – Accounting and Review Services Committee
Chuck Landes – Vice President, Professional Standards
Ashley Matthews – Technical Manager, Member Learning & Competency Portfolios (on January 5-6 only)
Richard Miller – Special Counsel
Carl Peterson – Vice President, Small Firm Interests, Firm Services & Global Alliances (January 6-7 only)
Linda Volkert - Staff Liaison to the PCPS Technical Issues Committee, Firm Services and Global Alliances Team, Center for Plain English Accounting

Observers:

Laura Billingsley – Practitioners Publishing Company
Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing Loss Prevention Specialist

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met January 5-7, 2016 in Sarasota, FL. The following issues were discussed:

Welcome and overview of meeting objectives

Chair’s Report

M. Fleming welcomed the ARSC members, AICPA staff, and observers to the meeting and stated that the ARSC will discuss the disposition of the interpretations to the pre-SSARS 21 SSARSs as well as the AR sections that were not clarified either as part of SSARS 21 or the exposure draft that is currently outstanding. The ARSC will also consider its work plan for the next 3-5 years.

Director’s Report

C. Landes stated that the Auditing Standards Board has voted to issue the proposed Statement on Auditing Standards, *Amendment to Statement on Auditing Standards No.*

122 Section 700, Forming an Opinion and Reporting on Financial Statements. The amendment clarifies that when an auditor conducts an audit and reports in accordance with the auditing standards of the PCAOB and those audits are not within the jurisdiction of the PCAOB, as set forth in the AICPA *Code of Professional Conduct* (Code),

- the auditor must also comply with GAAS.
- the auditor is required to use the form of reporting specified by the auditing standards of the PCAOB amended to indicate that the audit was also conducted in accordance with GAAS.

C. Landes stated that the amendment was necessary as certain SEC filings require audits performed in accordance with the standards of the PCAOB even though those entities are not within the jurisdiction of the PCAOB. It is anticipated that the standard will be issued as SAS No. 131 later in January 2016.

C. Landes stated that the ASB is meeting January 12-14, 2016. The ASB is expected to continue its discussions on the potential for a direct engagement. The issue was debated when the attestation standards were clarified. Several ASB members believe that a practitioner should be able to perform an examination or review level service without a responsible party providing a written assertion (for example, whether management believes that the subject matter is in accordance with specified criteria).

The ASB will also discuss issues with respect to potential revisions to the standards for auditor reporting – including expanding the auditor’s report. Most of the additional language in the international auditor’s reports are due to the inclusion of key audit matters (KAMs). KAMs are required internationally only for listed entities (but not prohibited for nonlisted entities). The ASB was waiting to see what standards the PCAOB would issue but has determined to move forward at this time. The various auditor reporting projects include auditor’s responsibility for other information and going concern as well as an expansion of the discussion of management’s responsibilities in the auditor’s report.

C. Landes stated that currently, an auditor is not required to be involved in municipal securities filings however; there is significant diversity in practice with respect to the issue. The ASB will consider a proposed SAS addressing the auditor’s involvement with offering documents other than filings with the SEC. One school of thought is that a revised standard on other information in annual reports could subject the offering document to an “intelligent read”. Another school of thought is to require additional subsequent event procedures up to the date of the filing.

C. Landes also stated that the ASB will discuss issues with respect to sustainability reporting. The larger firm representatives on the ASB believe that guidance above the Statement of Position on auditing greenhouse gases is needed. The ASB will discuss whether to revise the clarified attestation standards or develop a subject-specific chapter for the attestation literature.

While not on the agenda for the January 2016 meeting, the ASB will continue discussions on the development of a revised standard on auditor's reports in connection with ERISA audits.

With respect to the AICPA, on January 11, 2016 there will be a meeting of the Chairs of various standard setting committees to consider whether additional steps should be taken to improve audit quality. While M. Fleming will not be attending the meeting due to the scheduling around the ARSC meeting, he will be invited to future meetings. A considerable amount of work has been done in developing non-authoritative guidance on the quality control standards. There has been some discussion whether to revise the quality control standards so as to have them look more like standards on management improvement and then the quality control standard would look more like the COSO framework.

With respect to the IAASB, C. Landes stated that, in December 2015, the Board agreed to issue an invitation to comment on audit quality issues. Included as topics for comment are professional skepticism, group audits, and auditing estimates. The invitation to comment has been issued and the ASB will be forming roundtables and determining the best way to comment.

Interpretations of AR sections 80 and 90 and AR sections not included in SSARS 21 or the Proposed SSARS Compilation of Pro Forma Financial Information

M. Glynn presented the agenda materials and advised that the objective was to consider the following AR literature and how the requirements and guidance were disposed of – that is either included in SSARS 21, the AICPA Guide, *Preparation, Compilation, and Review Engagements*, or not included in authoritative literature – and whether any interpretative guidance or requirements should be retained.

- Compilation of Financial Statements: Accounting and Review Services Interpretations of Section 80
- Review of Financial Statements: Accounting and Review Services Interpretations of Section 90
- AR section 200, *Reporting on Comparative Financial Statements* and related interpretation
- AR section 300, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms* and related interpretation
- AR section 400, *Communications Between Predecessor and Successor Accountants* and related interpretation
- AR section 600, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* and related interpretation

- AR section 110, *Compilation of Specified Elements, Accounts, or Items of a Financial Statement*

Interpretations to AR section 80

The ARSC discussed each interpretation individually and determined that there is no need to issue any interpretations to AR-C section 80.

With respect to Interpretation No. 1 to AR-C section 80, “Reporting When There Are Significant Departures From the Applicable Financial Reporting Framework”, R. Miller asked whether the inclusion of a separate paragraph in the accountant’s compilation report that emphasizes the limitations of financial statements in these circumstances results in “engagement creep”. M. Fleming stated that his firm has issued reports containing such an additional paragraph and does not believe that it misleads users as to the accountant’s responsibilities. The guidance is included in paragraph .A33 of AR-C section 80 and in the Guide (paragraphs 2.69 and 2.70) and the ARSC believes that the guidance has been properly addressed.

With respect to Interpretation No. 2 to AR-C section 80, “Reporting on Tax Returns”, the ARSC directed that .A1 of AR-C section 80 be amended to include “financial information contained in a tax return” as an additional example of other historical financial information to which AR-C section 80 may be applied. Because the example is provided in paragraph 2.01 of the Guide, *Preparation, Compilation, and Review Engagements* (the SSARSs Guide), the change to AR-C section 80 can be silent.

With respect to Interpretation No. 4 to AR-C section 80, “Differentiating a Financial Statement Presentation From a Trial Balance”, the ARSC concluded that while the guidance is not needed for compilation engagements, it may help practitioners understand when the preparation service applies.

With respect to Interpretation No. 5 to AR-C section 80, “Submitting Draft Financial Statements”, M. Fleming stated that accountants should not present draft financial statements to a client unless the accountant intends to issue final statements.

With respect to Interpretation No. 6 to AR-C section 80, “Reporting When Financial Statements Contain a Departure From Promulgated Accounting Principles That Prevents the Financial Statements From Being Misleading”, M. Fleming stated that the guidance is not needed for a compilation engagement as it applies only to assurance (review and audit) engagements.

With respect to Interpretation No. 8 to AR-C section 80, “Applicability of Statements on Standards for Accounting and Review Services When Performing Controllorship or Other Management Services”, C. Landes stated that, while the guidance is included in the chapter of the SSARSs Guide dealing with preparation engagements, it may not be intuitive for a practitioner to go to the Guide for such guidance. The ARSC directed that a new application paragraph be added to hang off paragraph .10 of AR-C section 60 clarifying that if an accountant is not in the practice of public accounting, the issuance of a report in accordance with SSARSs would be inappropriate and providing an alternative

communication that may be used. In addition, to further clarify when AR-C section 70 applies, a new application paragraph should be added to paragraph .01 of that section stating that if an accountant in public practice is also in business (for example, serves as a member of an entity's board of directors), the accountant is not required to but is not precluded from applying the requirements of AR-C section 70.

With respect to Interpretation No. 10 to AR-C section 80, "Omission of the Display of Comprehensive Income in Compiled Financial Statements", Interpretation No. 13 to AR-C section 80, "Compilations of Financial Statements Prepared in Accordance With International Financial Reporting Standards" and, Interpretation No. 17 to AR-C section 80, "Required Supplementary Information That Accompanies Compiled Financial Statements", the ARSC directed that illustrative accountant's compilation reports be included in the 2016 edition of the SSARSs Guide to address such situations.

Interpretations to AR section 90

The ARSC discussed each interpretation individually and determined that the guidance included in Interpretation No. 10 to AR-C section 90, "Considerations Related to Reviews Performed in Accordance with International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*, Issued by the International Auditing and Assurance Standards Board" be revised for SSARS 21 and issued as a new Interpretation to AR-C section 90. The ARSC also directed that a draft SSARS be developed that would address these issues as well as other issues related to international reporting.

With respect to Interpretation No. 6 to AR-C section 90, "Special-Purpose Financial Statements to Comply With Contractual Agreements or Regulatory Provisions", the ARSC directed that an illustrative accountant's review report be included in the 2016 edition of the SSARSs Guide to address situations in which the accountant issues a review report on financial statements prepared in accordance with a basis of accounting prescribed in a contractual agreement or regulatory provision that results in an incomplete presentation but one that is otherwise in accordance with GAAP or a special-purpose framework.

With respect to Interpretation No. 8 to AR-C section 90, "Reviews of Financial Statements Prepared in Accordance With International Financial Reporting Standards" and Interpretation No. 11 to AR-C section 90, "Required Supplementary Information That Accompanies Reviewed Financial Statements", the ARSC directed that illustrative accountant's review reports be included in the 2016 edition of the SSARSs Guide to address such situations.

AR section 200 requirements and interpretation

The ARSC discussed each requirement and the interpretation individually and determined that there is no need to issue any additional requirements, guidance, or interpretations to AR-C sections 70, 80, or 90.

As part of its review of the requirements and guidance in AR section 200, the ARSC noted that paragraph 2.51 of the SSARSs Guide contained a wording error and directed that the paragraph be revised to read as follows:

2.51 When the accountant is engaged to perform a compilation engagement on comparative financial statements, in accordance with the requirement in [paragraph .17](#) of AR-C section 80, the accountant's compilation report should specify the *financial statement* periods covered by the ~~financial statements~~ *accountant's compilation report*.

AR section 400 requirements and interpretation

The ARSC discussed each requirement and the interpretation individually.

R. Miller, while recognizing that the SSARSs have never required that a successor accountant communicate with a predecessor accountant, stated that the ARSC should consider, as a future project, requiring communications between successor and predecessor accountants in a review engagement. R. Miller stated that such requirements could be modeled after the requirements for an audit engagement. M. Fleming stated that perhaps the next edition of the SSARSs Guide could include guidance on communications between successor and predecessor accountants in a review engagement.

The ARSC determined that there is no immediate need to issue any additional requirements, guidance, or interpretations to AR-C sections 70, 80, or 90.

AR sections 110, 300, and 600 requirements and interpretations

The ARSC discussed each requirement and interpretation individually and determined that there is no need to issue any additional requirements, guidance, or interpretations to AR-C sections 70, 80, or 90.

ARSC 3-5 year work plan

The ARSC considered its work plan with respect to standard setting activities for the next 3-5 years.

S. Balzer stated that in reading the results of the ASB's strategic plan survey, it is apparent after the issuance of clarified standards that there is a need for significant implementation guidance and that the immediate focus of the ARSC should be to provide timely guidance with respect to the implementation of SSARS 21. One group that S. Balzer stated needs guidance on the services that CPAs can provide is the banking community.

J. Dillard stated that he thinks that the concept of an ARSC work plan Invitation to Comment (ITC) makes a great deal of sense. J. Dillard stated that an ITC could shed some light on the issue of limited assurance as he feels that many CPAs may not understand the concept and are performing reviews that are more like compilations. J. Dillard stated that he also believes that some firms are performing a significant number of procedures ordinarily performed in an audit in a typical review. J. Dillard stated that if the ARSC could diminish the diversity in practice with respect to limited assurance

engagements that it would be helpful and in the public interest. C. Landes stated that a related project considering how professional skepticism is applied in limited assurance engagements could be considered.

After discussion, the ARSC determined that a Task Force should be established to consider the content of a potential ITC regarding the ARSC work plan.

M. Fleming stated that it is pretty evident that the ARSC should reach out to interested parties to determine if those groups have any thoughts with respect to projects that the ARSC should consider.

S. Balzer stated that the ARSC may consider the development of a SSARs Quality Center.

C. Landes stated that perhaps a video that could be posted to RIVIO of ARSC members explaining the nonaudit services would be helpful.

The ARSC directed that the following projects be considered:

Near-term (May – November 2016)

- Consider developing a standard (SSAE) that would create a new level of service whereby accountants would perform specified procedures without obtaining an assertion from a responsible party; no assurance obtained or provided; and issue a report that would describe procedures and findings but would not be required to be restricted.
 - The project could be a joint project of the ARSC and ASB
 - May result in there being no need for an agreed-upon procedures engagement
- Development of a new SSARs addressing reporting issues regarding reviews performed in accordance with ISRE 2400 (Revised) and reviews (and perhaps compilations) performed on financial statements prepared in accordance with IFRSs or a jurisdictional variation of IFRSs.
- Development of an Invitation to Comment that would ask respondents their thoughts on:
 - The need for a standard addressing accountant association with financial statements
 - The need for the ARSC to attempt to address/define *limited assurance*

Long-term projects – 2017 and beyond

- Consider commissioning academic research to address what procedures are needed to obtain limited assurance – based, in part, on results from the ITC.

- Consider developing and issuing a practice aid providing best practices for bookkeeping engagements.

Liaison activities

- Attempt to set up a meeting with the American Bankers Association during the first quarter of 2016. The meeting could take place at the AICPA's offices in Washington, DC as the ABA is headquartered in Washington. The agenda would include, at a minimum, a discussion of
 - The preparation service
 - FRF-SME (invite CPEA representatives to present)
 - RIVIO (invite cpa.com representatives to present)
- May 2016 – Liaise with the California Society of CPA's A&A Committee at the ARSC meeting in Anaheim
- August 2016 – If the ABA cannot meet in the first quarter of the year, consider inviting to the ARSC's August 2016 meeting in Asheville, NC.
- November 2016 – Liaise with the PCPS TIC at the ARSC's meeting in San Antonio, TX.
- Offer to present at the ABA's annual convention in Detroit.

Other groups that the ARSC would like to liaise with:

- CAMICO/CNA
- Professional Ethics Executive Committee
- AICPA Peer Review Board
- AICPA Assurance Services Executive Committee
- FASB/PCC (perhaps with the TIC in September 2016 or the ASB in October 2016)

Center for Plain English Accounting

L. Volkert asked the ARSC members for their thoughts on what guidance smaller firms might need in the A&A area (financial reporting, auditing, reviews, compilations, preparation services, quality control). The ARSC members communicated informal thoughts and suggestions to L. Volkert.

Wrap-up

The next in-person meeting of the ARSC will be May 17-19, 2016 in Anaheim, CA. At that meeting, the ARSC expects to:

- Consider comment letters received on the proposed SSARs *Compilation of Prospective Financial Information; Compilation of Pro Forma Financial Information; and Omnibus – 2016* and, if the comment letters are manageable, consider voting to issue the proposed standards as final SSARs.

- Liaise with the California Society of CPAs A&A Committee.
- If available, consider a draft of a potential ITC on the potential topics on the proposed ARSC work plan.
- Consider the proposed SSARSs dealing with review reporting issues with respect to international standards and consider voting to expose for public comment.

The other scheduled ARSC meetings in 2016 are as follows (specifics of the meeting agendas for these meetings will be determined at a later date):

- August 9-10 – Asheville, NC
- November 15-16 – San Antonio, TX