

**Accounting and Review Services Committee  
Meeting Highlights  
November 14-15, 2017**

**Committee members present:**

Mike Fleming, Chair  
Denny Ard  
Sheila Balzer  
Jimmy Burkes  
Jeremy Dillard  
David Johnson  
Dustin Verity

**AICPA staff present:**

Mike Glynn – Senior Technical Manager, Audit & Attest Standards; Staff Liaison – Accounting and Review Services Committee  
Kristy Illuzzi - Staff Liaison to the PCPS Technical Issues Committee  
Michael Jones – Assistant General Counsel  
Chuck Landes - Vice President, Professional Standards  
Richard Miller – Special Counsel

**Observers:**

Laura Billingsley – Practitioners Publishing Company  
Nigyar Mamedova – National Association of State Boards of Accountancy (NASBA), Director – Technical Research  
Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing Loss Prevention Specialist  
Joseph Wolfe - Risk Management Consultant, Aon Affinity – Professional Firms

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met November 14-15, 2017 in Savannah, GA. The following issues were discussed and actions taken:

***Welcome and overview of meeting objectives***

**Chair’s Report**

M. Fleming welcomed the ARSC members, AICPA staff, and observers to the meeting.

M. Fleming stated that since the ARSC’s last meeting in August 2017, the ARSC issued the following two exposure drafts for public comment:

- Proposed SSAE, *Selected Procedures*
- Proposed SSARS, *Omnibus Statement on Standards for Accounting and Review Services – 2018*

The comment period ends December 1 and December 14, 2017, respectively.

M. Fleming thanked the ARSC members for their efforts in connection with a couple of forthcoming publications, and noted that the 2017 edition of the Guide, *Preparation, Compilation, and Review Engagements* is expected to be available by the end of November 2017. The Alert, *Developments in Preparation, Compilation, and Review Engagements 2017/2018* is expected to be available by the end of December 2017.

M. Fleming stated that he participated in the meeting of the Chairs of various AICPA Committees in early October at the AICPA offices in New York. The discussions centered on enhancing engagement quality including how peer review can be utilized to ensure the performance of quality engagements. The group also discussed the concept of convergence with corresponding international standards for all AICPA issued standards. As part of the ARSC presentation, M. Fleming stated that the PEEC Chair and Director were reminded about the independence issues that the ARSC has posed to PEEC:

- Currently there is an inconsistency between independence for an examination or review of pro forma financial information (where the member need be independent only of the responsible party) vs. a compilation of pro forma (where the member would need to be independent of both parties). Code section *1.297.010 Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements* does not apply to SSARSs engagements so, in a compilation of pro forma, the member would have to be independent of the engaging party as well as the responsible party.
- Whether the proposed Selected Procedures service would have the same independence rules as agreed-upon procedures engagements.

In response to a request for an update, S. Balzer stated that the Assurance Research Advisory Group is scheduled to meet at the end of November to review the research proposals received. The topic of limited assurance continues to not generate interest among the academic community. Mr. Fleming stated that the ARSC will continue to pursue alternative means to get academic input on the vital topic to the ARSC's work.

#### Director's Report

C. Landes stated that the ASB met October 16-19, 2017 in Dallas, TX. At that meeting, the ASB discussed the proposed revisions to AT-C sections 105, *Concepts Common to All Attestation Engagements*; 205, *Examination Engagements*; and 210, *Review Engagements*, intended to enable practitioners to perform examination and review engagements without having to request a written assertion from the responsible party. The ASB directed that the term *limited assurance engagement* be adopted in place of the term *review engagement*.

The ASB also discussed reporting on the proposed SAS on ERISA plan financial statements.

The ASB also considered proposed amendments to certain AU-C sections as part of its strategy to minimize differences between GAAS and the auditing standards of the PCAOB. After discussion, the ASB voted to expose the proposed amendments for public comment.

The ASB also met with representatives of the Texas Society of CPAs' Professional Standards Committee. The discussion included audit quality and auditor competency as well as the ASB's proposed revisions to the auditor reporting standards.

Approval of highlights from the August 15-17, 2017 ARSC meeting

J. Burkes made a motion that the ARSC approve the highlights of the August 15-17, 2017 meeting as presented. J. Dillard seconded the motion and the ARSC unanimously voted to approve the highlights.

***Consideration of the Accountant's Response in a Review Engagement When Identified Misstatements are Material and Pervasive***

M. Glynn stated that the objective is to continue discussions as to the appropriate response in a review engagement when an accountant identifies material and pervasive misstatements and provide direction as to whether revisions are necessary to AR-C section 90, *Review of Financial Statements*; AT-C section 210, *Review Engagements*; or AU-C section 930, *Interim Financial Information*. If the ARSC determines that revisions are necessary to either AT-C section 210 or AU-C section 930, a recommendation will be made to the ASB to revise the standards.

The ARSC members agreed that the three separate bodies of literature should be consistent with respect to the response when an accountant identifies material and pervasive misstatements. The ARSC noted that AU-C section 930 and AR-C section 90 both include a step in which the practitioner considers whether modification of the standard report is sufficient to address a misstatement. If the practitioner concludes that modification of the standard report is not sufficient, then the practitioner is required to withdraw. AT-C section 210 requires the practitioner to jump right to withdrawal when the effects of the matter are material and pervasive and does not permit modification of the standard report. R. Miller stated that it would not be practical to require withdrawal in a review of interim financial statements performed in accordance with AU-C section 930 and therefore, the AT-C section 210 response would not be appropriate for such engagements.

D. Johnson stated that he does not believe that it is in the public interest for an accountant to issue a report that states that "except for the following pervasive and material misstatement, we are not aware of any material modification that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework." C. Landes stated that while he agrees with D. Johnson, he is also of the view that there should be some mechanism for the accountant to report if he or she believes that the departure can be adequately explained in the report and the accountant feels that a potential user would not be misled.

C. Landes questioned whether the prohibition in AR-C section 90 on the accountant modifying the standard report to include a statement that the financial statements are not in accordance with the applicable financial reporting framework remains appropriate. For many years, the SSARSs have included guidance that states that including a statement that the financial statements are not in accordance with the applicable financial reporting framework would be tantamount to expressing an adverse opinion on the financial statements and that such an opinion can be expressed only in the context of an audit engagement. C. Landes added a reminder that ISRE 2400 (Revised) permits the issuance of an adverse conclusion.

The ARSC considered the situation in which an accountant is engaged to perform a review in accordance with both SSARSs and ISRE 2400 (Revised) and has identified a misstatement that is material and pervasive to the financial statements. While SSARSs prohibit the issuance of an adverse conclusion, ISRE 2400 (Revised) would require the issuance of such a conclusion. As such, the accountant would not be able to adhere to both sets of standards. The ARSC concluded that the issue merits the committee considering permitting the issuance of an adverse conclusion when the accountant is aware that the financial statements are materially and pervasively misstated – if for no other reason than not putting accountants in a position where they cannot adhere to the standards.

The ARSC concluded:

- 1) That AR-C section 90, AT-C section 210, and AU-C section 930 should be consistent with respect to reporting requirements when the practitioner identifies a misstatement that is material and pervasive to the subject matter.
- 2) That it would consider a closer convergence between AR-C section 90 and ISRE 2400 (Revised) – which would include the consideration of requiring an adverse conclusion when a misstatement is material and pervasive. The accountant would not be precluded from withdrawing from the engagement. A draft proposed revised AR-C section 90 should be presented to the ARSC at its meeting in May 2018 that would, if issued as a final standard, result in closer convergence with ISRE 2400 (Revised).
- 3) That a recommendation be made to the ASB that, as part of the Direct Engagements project, a closer convergence between AT-C section 210 and ISAE 3000 (Revised) be considered – including requiring the issuance of an adverse conclusion in instances in which the practitioner is aware of a misstatement that is material and pervasive.
- 4) If AR-C section 90 is revised, a recommendation be made to the Audit Issues Task Force that AU-C section 930 be correspondingly revised to require an adverse conclusion when a misstatement is material and pervasive. The accountant would not be precluded from withdrawing from the engagement.

- 5) An inventory of instances in which the SSARs require that the accountant withdraw from the engagement be compiled. The ARSC will then consider the consistency and appropriateness of each requirement.

### ***Consideration of the Conduct of a Review Engagement in a Cloud and Electronic Environment***

M. Glynn stated that the objective is to discuss how review engagements are performed in an electronic environment and to consider whether additional requirements or guidance are necessary in order to ensure that engagements are performed in a high quality manner. M. Glynn stated that the concern is that certain review procedures are not being performed as intended and in a way as to ensure high-quality engagements. For example, while AR-C section 90 requires that review procedures be tailored in each engagement, automated tools may result in the same analytical procedures and inquiries being performed on many engagements.

The ARSC emphasized that inquiry is a fundamental technique used in review engagements to collect evidence relative to the financial statements. However, different generations consider what constitutes a *conversation* differently. For example, an accountant in practice for over 20 years would generally consider a conversation to be either a face-to-face or telephone discussion whereas, younger accountants may consider communication methods such as e-mail and texting to be sufficient and appropriate vehicles for conversation.

The ARSC further emphasized that the inquiry process is effective only if the individual making the inquiries has the appropriate experience and skill in order to pursue a significant line of assertive questioning consistent with the concept of professional skepticism. The ARSC directed that, as part of its consideration of a closer convergence with ISRE 2400 (Revised), a requirement be included in AR-C section 90 that the engagement team collectively have the “appropriate competence and capabilities including expertise in financial reporting.” The AICPA Code of Professional Conduct may have additional guidance with respect to “expertise.” S. Balzer stated that an ARAG research paper entitled “The Effects of Alternative Forms of Client Communication on Staff Auditor Performance” may provide some additional items to consider.

The ARSC directed that a non-authoritative Practice Aid be drafted that is based off of existing requirements in the AICPA Code of Professional Conduct regarding due professional care, core competence, and quality of evidence that provides guidance as to how an accountant can perform analytical procedures and inquiries effectively in an electronic environment. The Practice Aid should focus on engagement planning and the risk consideration process in an attempt to direct appropriate behavior. The Practice Aid would also consider whether an accountant could obtain sufficient appropriate review evidence without assessing the reliability of the inputs. The ARSC directed that such Practice Aid be prepared by the middle of 2018. The issuance of such a document may be delayed until the project to more closely converge with ISRE 2400 (Revised) is completed.

J. Dillard also stated that the illustrative inquiries in the AICPA Guide, *Preparation, Compilation, and Review Engagements* should be reconsidered and revised so as to result in more open-ended questions. “Yes/No” responses are, as a practical matter, not often helpful in obtaining sufficient appropriate review evidence.

The ARSC is aware that it may be moving toward “raising the bar” on review engagements but that such evolution may be appropriate.

***Consideration of Proposed Revisions to AT-C sections 105 and 210***

M. Glynn stated that the objective is to discuss issues with respect to the ASB’s project to revise the attestation standards to enable practitioners to report on subject matter without having to obtain a written assertion. The discussion will focus on AT-C sections 105, *Concepts Common to All Attestation Engagements* and 210, *Review Engagements*.

After discussion, the ARSC concluded that it agrees with the ASB and the Direct Engagements Task Force that:

- An engagement performed in accordance with AT-C section 210 be referred to as a *limited assurance engagement*.
- AT-C section 210 should be revised to make clear that review evidence may be obtained from procedures in addition to, or other than, inquiries and analytical procedures in an engagement performed in accordance with AT-C section 210.
- Consistent with ISAE 3000 (Revised), the practitioner’s report include a description of the specific procedures performed.

The ARSC further directed that:

- The ASB be requested to consider whether the prohibition on a review of prospective financial information be retained.
- As part of its project to consider revisions to AR-C section 90, that the ISAE 3000 (Revised) requirement for the practitioner’s report to include a description of the procedures performed be considered for inclusion as a reporting requirement in AR-C section 90.

***Draft Summary of Incremental Requirements for a Review in Accordance with ISRE 2400 (Revised) and SSARs***

M. Glynn stated that the objective is to consider the draft non-authoritative summary “Incremental Procedures Required to be Performed if a Review is to be Conducted in Accordance with SSARs and International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*.

As part of the discussion, the ARSC walked through a document that compares the requirements from ISRE 2400 (Revised) to those from AR-C section 90. The ARSC concluded that:

- As part of its project to revise AR-C section 90 to more closely converge with ISRE 2400 (Revised) that 2 separate documents be prepared – 1 that maps ISRE 2400 (Revised) to proposed revised AR-C sections 60 and 90 and 1 that shows revised AR-C sections 60 and 90 in a format with requirements and associated application guidance side-by-side.
- The revised AR-C section 90 should include an objective that is consistent with the proposed objective of revised AT-C section 210 and should focus on reducing risk to a level that is appropriate in the circumstances of the engagement.
- The non-authoritative summary not be issued at the present time but, instead be considered for issuance when the proposed revised AR-C sections 60 and 90 are prepared.

#### ***Liaison with the PCPS Technical Issues Committee***

The ARSC met with the PCPS Technical Issues Committee (TIC). The TIC provides standard setters such as the ARSC with the unique perspective of local CPA firms on accounting, auditing and reporting issues. The ARSC and TIC discussed the ARSC's current projects including current outstanding exposure drafts on Selected Procedures and Omnibus SSARS – 2018. Also discussed were:

- implementation issues with respect to SSARS 21
- implementation issues with respect to SSARS 23 regarding engagements to prepare prospective financial information
- the consideration of materiality in a review engagement

As part of the discussion of the exposure draft of the proposed SSARS, *Omnibus Statement on Standards for Accounting and Review Services – 2018*, the TIC urged the ARSC to not make the proposed technical correction to the review reporting requirements effective upon issuance as doing so may be a hardship on practitioners.

#### ***Wrap-up***

The next in-person meeting of the ARSC will be January 9-11, 2018 in New Orleans, LA. At that meeting, the ARSC expects to:

- Consider the comment letters received on the exposure draft of the proposed SSAE, *Selected Procedures* and a revised draft of the proposed standard
- Consider the comments letters received on the exposure draft of the proposed SSARS, *Omnibus Statement on Standards for Accounting and Review Services – 2018* and a revised draft of the proposed standard. If the revisions are not

significant, the ARSC may consider voting to issue the proposed standard as a final SSARS.

- Consider proposed revisions to AT-C sections 105 and 210 as part of the ASB's project, sometimes informally referred to as "Direct Engagements," to revise the attestation standards to enable practitioners to report on subject matter without requesting or obtaining a written assertion.

#### Future Meetings

Dates and locations for subsequent ARSC meetings are as follows (specifics of the meeting agendas for these meetings will be determined at a later date):

- May 8-10, 2018 – Austin, TX
- August 14-16, 2018 – Seattle, WA
- November 13-15, 2018 – San Juan, PR