



**Accounting and Review Services Committee
Meeting Highlights
May 8-10, 2018**

Committee members present:

Mike Fleming, Chair
Denny Ard
Jimmy Burkes
David Johnson (via telephone)
Bruce Nunnally
Victoria Pitkin (via telephone)
Dustin Verity

AICPA staff present:

Mike Glynn – Senior Technical Manager, Audit & Attest Standards; Staff Liaison –
Accounting and Review Services Committee
Michael Jones – Assistant General Counsel (May 8-9 only)
Chuck Landes - Vice President, Professional Standards (May 8-9 only)
Richard Miller – Special Counsel

Observers:

Laura Billingsley – Practitioners Publishing Company
Jessica Luttrull – National Association of State Boards of Accountancy, Associate
Director – National Registry (May 8-9 only)
Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing
Loss Prevention Specialist
Joseph Wolfe – Aon Affinity, Risk Management Consultant – Professional Firms

Additionally, the AICPA PCPS' Technical Issues Committee (TIC) called into a portion of the ARSC meeting on May 8, 2018. The TIC was meeting separately in Scottsdale, AZ.

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met May 8-10, 2018 in Austin, TX. The following issues were discussed and actions taken:

Welcome and overview of meeting objectives

Chair's Report

M. Fleming welcomed the attendees, particularly V. Pitkin and B. Nunnally who are attending their first meetings as ARSC members, and went through the agenda for the meeting. M. Fleming stated that he, M. Glynn, and C. Landes all participated in the

Technical Chairs Meeting on May 3, 2018. The meeting was held via telephone and, in addition to the ARSC, included the Chairs and staff liaisons to the ASB, Assurance Services Executive Committee, Peer Review Board, and PEEC. Included was a discussion of the request made to the PEEC to provide the ARSC and the ASB with conclusions regarding independence when an attest client does not provide a written assertion and when the practitioner develops or assists in the development of procedures in an agreed-upon procedures engagement. Other topics discussed included continued focus on documentation deficiencies in peer review, the status of the PEEC's consideration of NOCLAR and IESBA ethics requirements, and dual-reporting engagements.

M. Fleming congratulated the Committee on voting for the issuance of the proposed Omnibus SSARS – 2018 during its conference call meeting in January 2018. That standard will be issued as SSARS 24 later in May 2018.

M. Fleming also advised the ARSC about the activities and the ongoing work efforts of the Attestation Standards Task Force. The Task Force has met several times via conference call during the first half of 2018 and the draft standards have been revised since the ARSC's January 2018 meeting. M. Fleming thanked D. Ard for his continued diligence and efforts as co-Chair of the Task Force.

Update on ARAG Activities

D. Verity stated that the Assurance Research Advisory Group has earmarked \$15,000 and personnel for the proposed research on levels of assurance, which would include limited assurance. If acceptable proposals are not submitted by the Fall of 2018, the ARAG plans to commission research directly.

Director's Report

C. Landes advised the ARSC that he has officially announced that he will retire from the AICPA on February 4, 2019. Robert Dohrer will assume the role as Chief Auditor – which is a new position with responsibilities similar to those that C. Landes has held. R. Dohrer is currently the Global Leader, Quality & Risk at RSM LLP. R. Dohrer will assume his position on October 1, 2018 and will work together with C. Landes through the end of October 2018. After October and until his retirement date, C. Landes will assist R. Dohrer with the transition and will wrap up projects that he is currently working on.

C. Landes stated that the ASB is meeting the week subsequent to the ARSC meeting. The primary objective of the ASB meeting will be to vote to expose the proposed revised attestation standards for public exposure. Additionally, the ASB will discuss issues and consider draft revisions to AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, including:

- Evaluation as to whether financial statements achieve “fair presentation” and whether required restrictions on the use of the auditor's report on financial

statements prepared in accordance with a contractual or regulatory basis of accounting is appropriate if the framework achieves “fair presentation.” C. Landes stated that the ARSC should consider the same question given that the requirement to restrict the use of a review report on contractual or regulatory basis financial statements is in AR-C section 90.

- Proposed revisions to the applicability of the going concern basis of accounting to audits of financial statements prepared in accordance with a special purpose framework, and audits of single financial statements, specific elements, accounts, or items of a financial statement.

The ASB will also review revisions to the exposure draft of the proposed SAS, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, based on comments received on the exposure draft and direction from the ASB. In particular, the ASB will focus on reporting requirements with respect to limited scope audits. The proposed revisions would result in the auditor not disclaiming on such audits but, instead providing an opinion even though the auditor is not auditing the certified information. The result would be a “special opinion” that the financial statements are fairly presented in accordance with GAAP and that the auditor has read the certified information.

The ASB will also discuss issues with respect to projects on audit evidence, estimates, and risk assessment.

Approval of highlights from the January 30, 2018 conference call meeting

D. Verity made a motion that the ARSC approve the highlights of the January 30, 2018 conference call meeting as presented. D. Ard seconded the motion and the ARSC unanimously voted to approve the highlights.

Definition of Limited Assurance

M. Glynn stated that the question of defining *limited assurance* is an issue in both agenda items for the meeting and therefore will be discussed separately. As stated previously by D. Verity, the ARAG supports research on levels of assurance – including the meaning of limited assurance.

International Standard on Review Engagements (Revised), *Engagements to Review Historical Financial Statements* (ISRE 2400 (Revised) includes the following definition of *limited assurance* (***emphasis*** added):

Limited assurance—The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this ISRE. ***The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the financial statements.***

M. Glynn advised that the current Attestation Standards Task Force considered a similar definition from International Statement on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. However, that Task Force had concerns about the ***bold italicized*** sentences in the definition as several members of the Task Force believe that the phrase *meaningful level of assurance* implies that there is a range of levels of limited assurance. Those members would suggest that the ***bold italicized*** sentences be deleted. If those sentences were deleted, the Task Force believes the standard would not be considered ISRE minus because the work effort and reporting requirements would be consistent between the SSARSs and ISRE 2400 (Revised).

Other members of the Task Force believe that ***bold italicized*** sentences should be included in the definition because they support the idea that the level of assurance obtained does need to be more than inconsequential and the evidence obtained must be sufficient and appropriate for the conclusion expressed (that is, it provides a “floor”). Some of the members see the accountant’s consideration of whether he or she has obtained a meaningful level of assurance as part of a “stand-back” in which the accountant considers whether sufficient work was performed to enable the accountant to conclude that “nothing came to my attention to indicate the financial statements are materially misstated.”

B. Nunnally stated that while he is uncomfortable with the concept of a “meaningful” level of assurance, the final sentence is more troublesome as saying that something is “meaningful” does not provide much guidance because if something does not meet the threshold, it would be considered “meaningless.”

V. Pitkin also expressed concern with the concept of the accountant needing to consider “intended users’ confidence” as different users would have different thresholds needed to enhance their confidence.

C. Landes stated that the concept of a “meaningful level of assurance” is not inconsistent with the concept of “moderate assurance” that the ARSC had considered as part of the development of SSARS 19.

After discussion, and in recognition of the concept of the “floor,” the ARSC directed that the definition be revised as follows (additions are shown in ***bold italics***; deletions in ~~strikethrough~~):

Limited assurance—The level of assurance obtained where engagement risk is ***not reduced to a level as low as an audit but is*** reduced to a level that is acceptable in the circumstances of the engagement ***as the basis for expressing a conclusion about whether the accountant is aware of any material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework,*** ~~but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this~~

~~ISRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements. ***The combination of the nature, timing, and extent of evidence gathering procedures is at least sufficient for the accountant to obtain a level of assurance that is meaningful to the accountant.***~~

The ARSC directed that a recommendation be made to the ASB that the definition of *limited assurance engagement* in the draft proposed revised AT-C section 105, *Concepts Common to All Attestation Engagements* be similarly revised.

Revisions to AT-C sections 105, 210, and 215

D. Ard presented the agenda material and stated that the objective is to consider drafts of the following proposed revised AT-C sections, and issues associated with the drafts, and provide feedback for consideration by the Auditing Standards Board (ASB) as it considers voting to expose the proposed revised AT-C sections for public comment.

- AT-C section 105, *Concepts Common to All Attestation Engagements*
- AT-C section 210, *Limited Assurance Engagements*
- AT-C section 215, *Agreed-Upon Procedures Engagements*

With respect to the proposed draft AT-C section 105, the ARSC directed that, to clarify the requirements and guidance when the engaging party is not the responsible party,

- Delete paragraph .A19 which reads “Evidence that the appropriate relationship exists with respect to responsibility for the underlying subject matter may be obtained through an acknowledgement provided by the responsible party. Such an acknowledgement also establishes a basis for a common understanding of the responsibilities of the responsible party and the practitioner. A written acknowledgement is the most appropriate form of documenting the responsible party’s understanding. In the absence of a written acknowledgement of responsibility, it may still be appropriate for the practitioner to accept the engagement if, for example, other sources, such as legislation or a contract, indicate responsibility. In other cases, it may be appropriate to decline the engagement depending on the circumstances, or to disclose the circumstances in the assurance report.”
- Revise the precondition for an attest engagement in paragraph .25b as follows:

The responsible party is a party other than the practitioner ~~and takes responsibility for the subject matter~~

- Revise paragraph .A38 (which provides application guidance with respect to the precondition in paragraph .25a that the roles and responsibilities of the appropriate parties are suitable in the circumstances) as follows:

.A38 All attestation engagements have an engaging party, ~~a responsible party,~~ the practitioner, ~~and~~ intended users, **and a party, other than the practitioner, who is responsible for the subject matter of the engagement.** ~~In some attestation engagements, the engaging party is different from the responsible party.~~

- Delete paragraph .A39 (which provides application guidance with respect to the aforementioned precondition in paragraph .25b) which reads as follows:

.A39 The responsible party may acknowledge its responsibility for the subject matter or for the written assertion as it relates to the objective of the engagement in a number of ways, for example, in an engagement letter, a representation letter, or the presentation of the subject matter, including the notes thereto, or the written assertion. Examples of other evidence of the responsible party's responsibility for the subject matter include reference to legislation, a regulation, or a contract.

With respect to the proposed draft AT-C section 210, the ARSC directed:

- That paragraph .35 with respect to the required written representations should be revised as follows:

.35 The practitioner should request from the appropriate party(ies) written representations in the form of a letter addressed to the practitioner. The representations should (Ref: par. .A50–.A54)

a. acknowledge the responsibilities of the appropriate party(ies), including

~~i. the responsible party is responsible for the subject matter in accordance with (or based on) the criteria; and~~

~~ii. the appropriate party(ies) is responsible for:~~

(1) identifying the criteria for the measurement, evaluation, or disclosure of the subject matter; and

(2) determining that such criteria are suitable and will be available to the intended users.

- The reporting requirements should include a requirement to state that the objective of an examination is to obtain reasonable assurance about whether the subject matter of the engagement is in accordance with (or based on) the criteria, in all material respects, in order to express an opinion. Further, the report should be clear that since the level of assurance obtained in a limited assurance

engagement is substantially lower, than the practitioner does not express an opinion. Otherwise, the ARSC concluded that the reporting requirements were appropriate.

With respect to the proposed draft AT-C section 215, the ARSC considered the direction provided to the Task Force in developing the proposed standard and reiterated that the proposed revised AT-C section 215:

- Should not require that specified parties take responsibility for the sufficiency of procedures
- Should allow for procedures to be developed during the course of the engagement with a written acknowledgment required from the engaging party that the procedures performed are appropriate for the intended purpose of the report prior to issuance of the practitioner's report
 - If no written acknowledgement, the practitioner is required to withdraw
 - While no requirement to obtain acknowledgement from parties other than the engaging party, the ARSC is in agreement with proposed application guidance when the practitioner wants acknowledgment from other parties.

The ARSC also directed that:

- The required written representations be streamlined (just required to get reps that responsible party is responsible for the subject matter and that the practitioner has been provided with all relevant information and access).
- The report would not be required to be restricted unless the procedures are prescribed without the practitioner having the ability to revise the procedures or perform additional procedures (along with the traditional availability of criteria requirements).

The ARSC considered the current draft of the proposed revised AT-C section 215 and directed that:

- To make clear that the proposed revised AT-C section 215 provides increased flexibility in the performance of and reporting on an agreed-upon procedures engagement while not impacting the practitioner's ability to perform an agreed-upon procedures engagement as contemplated in extant AT-C section 215, the proposed revised AT-C section include an illustrative report that includes the following:
 - A statement that identifies the responsible party and its responsibility for the subject matter or its assertion.

- A statement that
 - the sufficiency of the procedures is solely the responsibility of the parties specified in the report.
 - the practitioner makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose.
- To communicate with AICPA staff representatives of PEEC and ask whether the following requirement is in accordance with the revised Code of Conduct (the paragraph also appears in AT-C section 210):

.35 The practitioner should communicate to the responsible party known and suspected fraud and noncompliance with laws or regulations. When the engaging party is not the responsible party, the practitioner should also communicate this information to the engaging party.

Discussion With Technical Issues Committee

During the meeting, the AICPA Technical Issues Committee (who were meeting at the same time in Scottsdale, AZ) called into the ARSC meeting to receive an update on the progress of the project to revise the attestation standards. The Technical Issues Committee expressed concurrence with the draft proposed revised AT-C sections and stated their belief that such revisions are in the public interest. The Technical Issues Committee expressed its hope that the Auditing Standards Board would vote to expose the proposed revisions for public comment at its meeting the subsequent week.

Overall Directive to the Auditing Standards Board

The ARSC is agreeable to defer its vote to ballot to issue the proposed standard for public exposure to the Auditing Standards Board with the expectation that the ASB will vote to expose during its May 14-17, 2018 meeting without substantive revisions to the draft presented as part of the ARSC and ASB May meeting agenda materials.

Consideration of Revisions AR-C section 90

M. Glynn stated that the objective was to discuss draft proposed revisions to AR-C sections 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* and 90, *Review of Financial Statements*, to more closely converge with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*.

The ARSC considered whether the proposed requirement that the accountant plan and perform the review engagement with professional skepticism is appropriate. While the ARSC agreed that such a requirement is appropriate, the Committee directed that the proposed application guidance (which was primarily from ISRE 2400 (Revised)) be

deleted and instead, application guidance that is more closely aligned with the guidance in paragraphs .A22 - .A26 of AU-C section 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* be included.

The ARSC considered whether it agrees with the proposed explicit requirements with respect to materiality in a review engagement. While the ARSC agreed with the proposed requirements, C. Landes pointed out that paragraph .29 of AR-C section 80 incorporates the concept of materiality in a compilation engagement and questioned whether a requirement to consider materiality in a compilation or a preparation service may also be appropriate. The ARSC directed that the associated application guidance be included in AR-C sections 70 and 80 and that it would consider whether the requirement to consider materiality may be better positioned in AR-C section 60.

With respect to the proposed draft of revised AR-C section 60, the ARSC considered the precondition in paragraph .26a that requires the accountant to determine whether the financial reporting framework selected by management to be applied in the preparation of the financial statements. C. Landes questioned whether the “acceptability” of the framework runs to who chooses the framework, to the user, the AICPA Council resolution related to the 4 GAAP standard setters, or to some other consideration. The ARSC directed that the associated application guidance more closely align to the guidance in paragraphs .A2 - .A8 of AU-C section 210, *Terms of Engagement*.

With respect to the proposed draft of revised AR-C section 90, the ARSC directed that:

- Paragraph .03 be revised as follows:

.03 In a review of financial statements, the accountant expresses a conclusion ~~that is designed to enhance the degree of confidence of users regarding the preparation of an entity’s financial statements in accordance with an applicable financial reporting framework~~ **regarding the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework**. The accountant’s conclusion is based on the accountant obtaining limited assurance. The accountant’s report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.

- Paragraph .07a be revised as follows:

.07 In conducting a review of financial statements, the objectives of the accountant are to

- a. obtain limited assurance, primarily by performing analytical procedures and inquiries, **as a basis for reporting** ~~about~~ whether **the accountant is aware of any material modifications that should be made to** the financial statements, ~~as a whole, are free from material misstatement, thereby enabling the accountant to express a conclusion on whether anything has~~

~~come to the accountant's attention that causes the accountant to believe the financial statements are not prepared, in all material respects, for them to be~~ in accordance with the applicable financial reporting framework; and

- The definition of *review evidence* in paragraph .09 be expanded as follows:

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 consists primarily of the results of analytical procedures and inquires. Sufficiency of review evidence is the measure of 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.*

- Paragraph .25 be revised as follows:

.25 The accountant should design and perform analytical procedures and make inquiries and perform other procedures, as appropriate, to obtain sufficient appropriate evidence as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework based on the accountant's (Ref: par. .A39)

- a. understanding of the industry,
- b. knowledge of the entity, and
- c. awareness of the risk that the accountant may unknowingly ~~fail to modify the accountant's~~ *issue an inappropriate* review report ~~on financial statements that are materially misstated.~~ (Ref: par. .A40)

The ARSC considered whether it agrees with permitting the expression of an adverse review conclusion and whether the proposed requirements and guidance is appropriate. While the ARSC concluded that it does agree with permitting the expression of an adverse review conclusion and that the proposed requirements and guidance is appropriate, it directed that a request not be made to the Audit Issues Task Force regarding corresponding revisions to AU-C section 930, *Interim Financial Information* until comments on the proposed revisions to AR-C section 90 are received through the public exposure of the proposed standard.

The ARSC agrees with the requirement to include a statement that the accountant is independent and has fulfilled the accountant's other ethical responsibilities in accordance with relevant ethical requirements relating to the review engagement and with the proposed placement in the illustrative review report.

Wrap-up

The next in-person meeting of the ARSC will be August 14-16, 2018 in Seattle. At that meeting, the ARSC expects to consider revised drafts of AR-C sections 60 and 90 (and perhaps AR-C sections 70 and 80 with respect to materiality) and may consider voting to expose the proposed revised AR-C sections for public comment.

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):

- November 13-15, 2018 – San Juan, PR
- January 8-10, 2019 – location to be determined but most likely Orlando, FL
- May 7-9, 2019 – location to be determined but most likely Washington, DC