



Agenda Item 1C

EXPOSURE DRAFT

PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

Revisions to Statement on Standards for Attestation Engagements No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification

Revises the following sections of Statement on Standards for Accounting and Review Services (SSARS) No. 21 (as amended):

- *AR-C section 60, General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*
- *AT-C section 90, Review of Financial Statements*

September XX, 2018

Comments are requested by December XX, 2018

Prepared by the AICPA Accounting and Review Services Committee for comment from persons interested in review and reporting issues. Comments should be addressed to Mike Glynn at mike.glynn@aicpa-cima.com.

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Explanatory Memorandum

Introduction

Statements on Standards for Accounting and Review Services (SSARSs) represent the standards that accountants in public practice are required to follow when performing reviews, compilations, and engagements to prepare financial statements. AR-C section 60, *General Principals for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* provides the requirements and associated application guidance that is applicable to all engagements performed in accordance with SSARSs. The requirements and associated application guidance specific to review engagements are provided in AR-C section 90, *Reviews of Financial Statements*.

Paragraph .04 of AR-C section 90 states that the objective of an accountant when performing a review of financial statements is 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, primarily through the performance of inquiry and analytical procedures.

This memorandum provides background regarding why the Accounting and Review Services Committee (ARSC) is issuing this proposed SSARS, *Revisions to Statement on Standards for Accounting and Review Services No. 21*, Clarification and Recodification, which would amend AR-C sections 60 and 90.¹

The most significant aspects of this proposed SSARS are described and explained in the section, “Changes From Existing Standards.”

Background

The ARSC concluded that undertaking a clarity project for the SSARSs similar to that which the Auditing Standards Board (ASB) had undertaken which resulted in the issuance of Statement on Auditing Standards (SAS) Nos. 122–124 in October 2011 would serve the public interest and ensure that all professional literature for audits, reviews, and compilations are drafted using the same conventions. In addition, the resulting clarified compilation and review standards would be easier to read, understand, and apply. The resultant SSARS was issued in October 2014 as SSARS No. 21.

Whereas the ASB used, where applicable, the corresponding International Standard on Auditing (ISA) as a base when drafting each clarified auditing standard, ARSC used AU-C section 930, *Interim Financial Information* (AICPA, Professional Standards), as a base to clarify the existing review literature. AU-C section 930 was clarified using International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, as a base, and there are no substantive differences between AU-C section 930 and ISRE 2410. ARSC determined that it was more appropriate to converge with

¹ All AR-C sections can be found in AICPA *Professional Standards*.

the corresponding limited assurance engagement guidance in the American auditing literature than with ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*.

In developing and issuing SSARS No. 24, *Omnibus Statement on Standards for Accounting and Review Services – 2018* in May 2018, which included requirements and guidance with respect to international reporting issues, the ARSC determined that a closer convergence with ISRE 2400 (Revised) was appropriate and in the public interest.

Changes From Existing Standards

The following is a summary of the proposed changes to extant AR-C section 90 that the ARSC believes would be the most significant. The proposed revisions to AR-C section 60 are not considered significant.

- *Require the accountant to determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures.* While extant AR-C section 90 does not include an explicit requirement for the accountant to determine materiality and apply such materiality in designing procedures and evaluating results, as stated in paragraph .04 of AR-C section 90, the accountant's objective when performing a review of financial statements is 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. As such, without a determination of materiality, the accountant is unable to meet the objective of the review engagement. For example, the accountant is required to consider materiality when,
 - in accordance with paragraph .17 of AR-C section 90, designing and performing analytical procedures and making inquiries and performing other procedures, as appropriate, 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 in order for the statements to be in accordance with the applicable financial reporting framework.
 - in accordance with paragraph .28 of AR-C section 90, evaluating whether uncorrected misstatements, including inadequate disclosure, identified by the practitioner in performing the review procedures or brought to the accountant's attention during the performance of the review are, individually and in the aggregate, material to the financial statements in order to determine whether any modifications should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

Request for Comment 1

Please provide your views on the proposed requirement for the accountant to determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. Do you believe that the proposed application guidance is helpful and sufficient for accountants in applying the proposed requirement?

- *Require the accountant, in obtaining sufficient appropriate review evidence as the basis for a conclusion on the financial statements as a whole, to design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures.* Extant paragraph .18 of AR-C section 90 requires the accountant to focus analytical procedures and inquiries in those areas where the accountant believes that there are increased risks of material misstatements. The proposed requirement would now require the accountant, in addition to those areas where the accountant believes that there are increased risks of material misstatements, to focus procedures on all material items in the financial statements.

Request for Comment 2

Please provide your views on the proposed requirement for the accountant, in obtaining sufficient appropriate review evidence as the basis for a conclusion on the financial statements as a whole, to design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures.

- *Require the accountant to inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about:*
 - a. material commitments, contractual obligations or contingencies that have affected may affect the entity's financial statements, including disclosures.*
 - b. material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.*

The proposed required inquiries would be in addition to the inquiries required by paragraph .22 of extant AR-C section 90.

Request for Comment 3

Please provide your views on the proposed additional required inquiries of members of management who have responsibility for financial and accounting matters concerning the financial statements.

- *Require the accountant, during the review, to remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the accountant. If the accountant identifies significant transactions outside the entity's normal course of business in the course of performing the review, the accountant should inquire of management about:*
 - (a) The nature of those transactions;*
 - (b) Whether related parties could be involved; and*
 - (c) The business rationale (or lack thereof) of those transactions.*

Request for Comment 4

Please provide your views on the proposed additional required procedures with respect to the accountant's consideration of related parties in a review of financial statements.

- *Require the accountant to request management to provide written representations stating that:*
 - a. *management has disclosed material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures.*
 - b. *management has disclosed material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration.*

The proposed required written representations would be in addition to the written representations required by paragraph .32 of extant AR-C section 90.

Request for Comment 5

Please provide your views on the proposed additional required written representations from members of management who have appropriate responsibilities for the financial statements and knowledge of matters concerned.

- *Require the accountant to document information that the accountant identified that is inconsistent with the accountant's findings regarding significant matters affecting the financial statements and how the inconsistency was addressed.*

The proposed documentation requirement would be in addition to the requirement in paragraph .94c of extant AR-C section 90 that the accountant prepare review documentation that is sufficient to enable an experienced accountant, having no previous connection to the review, to understand significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Request for Comment 6

Please provide your views on the proposed additional required documentation in a review of financial statements.

Effective Date

If issued as final, the proposed revised AR-C sections would be effective for reviews of financial statements for periods ending on or after June 15, 2020.² Early implementation would be permitted.

Request for Comment 7

² This proposed effective date is provisional but will not be earlier than June 15, 2020.

Are respondents supportive of the proposed effective date? If you are not supportive, please provide reasons for your response.

Guide for Respondents

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ARSC to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA for one year, beginning January XX, 2019. Responses should be sent to Mike Glynn at mike.glynn@aicpa-cima.com and received by December XX, 2018.

Comment Period

The comment period for this exposure draft ends December XX, 2018.

**Accounting and Review Services Committee
(2018–2019)**

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