



**Accounting and Review Services Committee
Meeting Highlights
November 13-15, 2018**

Committee members present:

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

AICPA staff present:

Bob Dohrer – Chief Auditor
Mike Glynn – Senior 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 attending in person:

Laura Billingsley – Practitioners Publishing Company
Jessica Luttrull – National Association of State Boards of Accountancy, Associate Director – National Registry
Paul Penler – Ernst & Young LLP and member of Attestation Standards Task Force (November 14 only)

Observers attending via teleconference:

Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing Loss Prevention Specialist
Joseph Wolfe - Risk Management Consultant, Aon Affinity – Professional Firms (November 13 and 15 only)

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met November 13-15, 2018 in San Juan, PR. The following issues were discussed, and actions taken:

Welcome and overview of meeting objectives

Chair's Report

M. Fleming welcomed the attendees. M. Fleming recapped ARSC related activities since the August 2018 meeting. Those activities included:

- Continued involvement with the project to revise the standards for agreed-upon procedures and attestation review engagements. The comment period on the exposure draft of the proposed revised standards ended on October 11, 2018 and 37 comment letters were received. The Attestation Standards Task Force held two separate two hour conference calls to discuss the comment letters received and to chart a course to address the comments received and present a robust discussion memorandum to the Auditing Standards Board at its meeting in January 2019. In addition, separate conference calls were held with each of the 4 ASB members who dissented on the public exposure of the proposed standard in order to better understand the reasons for the dissents. M. Fleming, D. Ard, B. Dohrer, C. Landes, and M. Glynn all participated in those calls. A separate conference call was held with the dissenters as a group, the aforementioned ARSC and staff personnel, and representatives of the AICPA Professional Ethics Executive Committee (PEEC) and PEEC staff to discuss the dissenters' independence concerns. The PEEC was not requested to take any action at that time as the call was intended to make the PEEC representatives aware of the issues.

In addition, the International Auditing and Assurance Standards Board has issued an exposure draft of proposed revisions to ISRS 4400 (Revised), *Agreed -Upon Procedures Engagements*. The Attestation Standards Task Force and AICPA staff have started to consider the draft.

The Attestation Standards Task Force will meet on December 4, 2018 in Chicago to draft a discussion memorandum for presentation to the ARSC and the ASB in January 2019.

- M. Fleming, B. Dohrer, C. Landes, and M. Glynn all attended the AICPA Chairs meeting on October 3-4, 2018 at the AICPA's offices in New York. The primary discussion topic was the enhanced audit quality initiative (EAQ). There was also a significant amount of discussion around the performance of risk assessment procedures in an audit and that performance in this area is surfacing in peer review as a common deficiency. Additionally, there was discussion around identifying qualified peer reviewers for SOC engagements.

M. Fleming also advised the ARSC that the recently approved FASB definition of *materiality* has caused the ASB to establish a Task Force to consider whether the definition in the auditing standards would need to be revised. As any such revision would also affect the SSARs, V. Pitkin has been appointed to that Task Force and is expected to advise the ARSC on an ongoing basis as of its progress.

In response to a question from M. Fleming, J. Burkes stated that the issue of identifying the city and state of the addressee in CPA reports remains an important issue for NASBA. The ASB remains optimistic that the auditor reporting suite of standards will be approved for issuance at the ASB's meeting in January 2019.

M. Fleming also acknowledged that this meeting will be C. Landes' last meeting attending and B. Dohrer's first meeting as Chief Auditor. The ARSC welcomed B. Dohrer and enthusiastically thanked C. Landes for his leadership and guidance with the ARSC for over 15 years.

Update on ARAG Activities

D. Verity stated that the Assurance Research Advisory Group has received proposals for research. The ARAG will meet in December to approve the research topics. The proposals under consideration are:

- Single Audit Act: Fraud, Waste and Abuse Exploration
- A Blockchain Halo? The Effects of Clients' Maturity with Emerging Technologies on Auditors' Professional Skepticism
- Does Data Visualization Bias Auditors' Judgments?
- Understanding and Benchmarking Audit Quality in the Private Company, Nonprofit, and ERISA Sectors
- Auditing From a Distance: The Influence of Audit Work Location on Professional Skepticism
- Determinants of Partner Activity and Their Effect on Audit Quality
- Knowledge Spillover or Independence Impairment: How the Type of Non-Attest Service Affects Audit Quality and Effort
- Does Budget Based Staff Compensation Affect Audit Quality and Audit Effort?
- External Auditor's Reliance on Work Performed by Client Valuation Specialists: The Influence of Fee Pressure on This Reliance Decision

The proposed topic with respect to assurance levels was not picked up. However, the ASB's Audit Evidence project may provide some insights that the ARSC may find helpful.

Director's Report

B. Dohrer stated that the significant activities of the ASB were covered in the Chair's Report.

B. Dohrer stated that it is his view that the SSARSs are robust and appropriate for practitioners performing preparation, compilation, and review engagements. The ARSC's strategic planning session is expected to begin to provide guidance with respect to the ARSC's agenda for the next 3-5 years.

Approval of highlights from the August 14-16, 2018 meeting

J. Burkes made a motion that the ARSC approve the highlights of the August 14-16, 2018 meeting as presented. V. Pitkin seconded the motion and the ARSC unanimously voted to approve the highlights.

Agenda item #1 – Proposed Revisions to SSARs – Compliance Frameworks

M. Glynn stated that the objective was to consider revisions to AR-C sections 60, 70, 80, and 90 to incorporate the concept of *compliance frameworks*.

M. Glynn reminded the ARSC that in August 2018, the Committee had approved the public exposure of proposed revisions to AR-C sections 60 and 90 to primarily include an explicit requirement for the accountant to determine materiality in a review engagement and to use in planning and performing review procedures and to permit the expression of an adverse review conclusion.

At the August 2018 meeting, the ARSC also separately considered the ASB's project to revise AU-C section 800 to introduce the concept of a *compliance framework*. The ARSC directed that revisions to the SSARs be developed so as to be consistent with the ASB's proposals and to include such proposed revisions in the draft standard that includes the proposed requirement to determine materiality in a review engagement and to allow an adverse review conclusion. M. Glynn stated that while the agenda materials state that the ARSC will be asked to vote to approve the public exposure of the proposed revisions, he recommends that such vote be tabled until the ASB finalizes the revisions to AU-C section 800 and that all such revisions be exposed for public comment at the same time.

The ARSC directed the following:

Proposed revised AR-C section 60

- The proposed revisions to the definition of *financial reporting framework* to incorporate the concept of a *compliance framework* are appropriate.
- After extensive discussion regarding what criteria would result in a financial reporting framework being classified as a fair presentation framework or a compliance framework, the following proposed application paragraph be deleted and the ASB's Auditor Reporting Task Force be advised it will not be included in SSARs:

.A12 Many entities use the cash or tax basis of accounting in preparing their financial statements. Such financial statements are widely recognized and often accepted by banks and other stakeholders. In addition, guidance on the preparation of such financial statements has been available and prevalent for many years. For these reasons, the cash and tax bases of accounting are considered fair presentation frameworks.

Instead of the aforementioned application paragraph, include the following and advise the ASB's Auditor Reporting Task Force:

.A12 If the financial statements are prepared in accordance with a special purpose framework and include a description as to how such financial statements differ from GAAP and include informative disclosures similar to GAAP, such financial statements are considered to be prepared in accordance with a fair presentation framework. The cash- and tax-bases of accounting are considered to be fair presentation frameworks. In addition, the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities explicitly states that it is a fair presentation framework.

The ARSC concluded that if possible, a framework should be developed that would provide criteria for accountants and financial statement preparers to consider in determining whether a financial reporting framework was a fair presentation or a compliance framework.

- The proposed revisions to the definition of *special purpose framework* are appropriate.
- The application paragraph providing examples of special purpose frameworks should be revised so as to explicitly state that the AICPA's Financial Reporting Framework for Small and Medium Sized Entities is an "other -basis."
- While recognizing that the contractual basis of accounting was historically excluded from the definition of *other comprehensive basis of accounting*, the final sentence in the application paragraph providing examples of special purpose frameworks, should be revised as follows:

~~*The cash-basis, tax-basis, regulatory-basis, and other-basis of accounting*~~
Special-purpose frameworks are commonly referred to as other comprehensive bases of accounting.

- The AICPA staff assisting with revisions to quality control standards should be asked whether the highlighted phrase is necessary. If not necessary, such phrase should be deleted:

.A39 Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.

Proposed revised AR-C section 90

- The term *pervasive* should be defined as follows:

Pervasive. A term used, in the context of misstatements, to describe effects on the financial statements that, in the accountant's judgment

- *are not confined to specific elements, accounts or items of the financial statements;*
- *if so confined, represent or could represent a substantial portion of the financial statements; or*
- *regarding disclosures, are fundamental to users' understanding of the financial statements.*

ARSC recognizes that such definition is not consistent with the defined term in the auditing literature and directed that the proposed revision be provided to the Auditor Reporting Task Force for consideration.

- The lead in to the primary inquiry requirement paragraph be revised as follows:

~~22~~–30 The accountant, *having the appropriate competence and capabilities including expertise in financial reporting*, should inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements, *and others within the entity, as appropriate* about...

- The following application paragraph should be deleted:

~~A92~~ The disclosure of any evidence or information that comes to the accountant's attention during the performance of review procedures that fraud or noncompliance with laws or regulations may have occurred to parties other than the entity's senior management (or those charged with governance, if applicable) ordinarily is not part of the accountant's responsibility and, ordinarily, would be precluded by the accountant's ethical or legal obligations of confidentiality.

- The accountant's reporting requirements should be revised to require disclosure of the city and state of the addressee in the accountant's review report.
- The required emphasis-of-matter paragraph in an accountant's review report on special purpose financial statements should be required to include a statement that the financial statements may not be suitable for another purpose for all compliance frameworks (that is, contractual and regulatory bases of accounting). The Auditor Reporting Task Force has proposed that the auditing standards require the statement only when the financial statements are prepared in accordance with a contractual basis of accounting. That Task Force should be advised as to the ARSC's consideration.
- The proposed revised reporting requirement that would require that the accountant's review report include an alert that restricts the use of the accountant's report only when the financial statements are prepared in accordance

with a contractual basis of accounting (i.e., the accountant could issue an unrestricted report on financial statements prepared in accordance with a regulatory basis of accounting) is appropriate.

Agenda item #2 – Consideration of Comments Received on Proposed Revised AT-C sections 210 and 215.

D. Ard presented the agenda material and stated that the objective was to discuss the comments received on the public exposure of the proposed Statement on Standards for Attestation Engagements, *Revisions to Statement on Standards for Attestation Engagements No. 18*, Attestation Standards: Clarification and Recodification (the “SSAE ED”) specific to the proposed revisions to AT-C section 210, *Review Engagements* and AT-C section 215, *Agreed-Upon Procedures Engagements* and to obtain preliminary feedback from the ARSC.

AT-C section 215

The ARSC concluded that:

- It continues to support a proposed revised AT-C section 215 that does not require the practitioner to request a written assertion or disclose in the accountant’s report when the practitioner has not obtained a written assertion.
- The flexibility proposed in the exposure draft is appropriate and should continue to be provided within a proposed standard that would require restrictions and limitations similar to extant AT-C section 215 when appropriate (but in limited circumstances). The ARSC does not support a standard that would provide separate performance and reporting requirements based on the intended users of the practitioner’s report or on the nature of the engagement. Neither would the ARSC support a separate selected procedures type standard as it believes that practitioners could be confused as to which standard to follow.
- It would support a standard that included transparent reporting requirements disclosing the identity of parties that accepted responsibility for the appropriateness of the procedures and agreement in the terms of the engagement phase as to what parties are expected to accept such responsibility.
- The ARSC recommended the following to the Attestation Standards Task Force:
 - As part of agreeing on the terms of the engagement, require the engaging party to acknowledge that they will accept responsibility for the appropriateness of the procedures and include a statement in the engagement letter that the report will indicate that the engaging party has accepted such responsibility.
 - If additional parties are expected to accept responsibility for the procedures performed, the engaging party will acknowledge (documented

in the engagement letter) that they will communicate with such additional parties and will provide a written statement that they have obtained the agreement from those parties that the procedures are appropriate for their purposes. Those parties would then be identified in the practitioner's report. If no additional parties have accepted responsibility for the procedures, the report will so state.

- Application guidance should be developed that states that while the engaging party (and additional parties, as appropriate) is required to accept responsibility for the *appropriateness* of the procedures, there is no preclusion on such parties taking responsibility for other aspects of the procedures such as sufficiency or suitability.
- The requirements with respect to requesting a representation letter from the engaging party, and if different the responsible party, are appropriate.

AT-C section 210

The ARSC concluded that:

- It continues to support the proposed change of the term *review engagement* to *limited assurance engagement*.
- It continues to support the proposed requirement to include a description of the procedures performed in the practitioner's report.
- It continues to support the proposal to permit the practitioner to express an adverse conclusion.
- It has no objection to running objectives, requirements, and guidance to *subject matter information* if that would assist users in understanding the standards – including concerns regarding independence.
- All requirements that refer to *appropriate parties* should be challenged and, if necessary, revised to clarify whether the requirement runs to the *engaging party* or *responsible party*.

Agenda item #3 – ARSC Strategic Planning and Open Discussion of Practice Issues

M. Glynn stated that the objective of the discussion was to consider what projects the ARSC may want to address over the next 3-5 years. The ARSC stated that:

- It should be represented on any ASB Task Force considering convergence as any recommendation would likely impact future SSARs projects.
- The ARSC would like to have regular liaison meetings with the AICPA Peer Review Board so as to understand areas in which the PRB is finding significant deficiencies. The ARSC would then use that information in determining whether

additional guidance is needed to assist CPAs in performing high-quality SSARs engagements.

Wrap-up

The next in-person meeting of the ARSC will be January 8-9, 2019 in La Jolla, CA. At that meeting, the ARSC expects to continue its consideration of potential revisions to SSARs with respect to financial statements prepared in accordance with a compliance framework as well as continued discussion of issues related to the proposed revisions to AT-C sections 210 and 215. The ARSC will also have further strategic planning discussions.

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):

- January 8-9, 2019 – La Jolla, CA
- May 7-8, 2019 – Washington, DC
- August 13-14, 2019 – Denver, CO
- November 13-14, 2019 – Durham, NC (AICPA offices)