



**Accounting and Review Services Committee  
Meeting Highlights  
January 8-9, 2019**

**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  
Robert Durak – Director, Audit & Accounting Technical Services  
Mike Glynn – Senior Manager, Audit & Attest Standards; Staff Liaison – Accounting and Review Services Committee  
Michael Jones – Assistant General Counsel  
Richard Miller – Special Counsel

**AICPA staff participating via teleconference:**

Chuck Landes - Vice President, Professional Standards (Welcome and Overview session only)

**Auditing Standards Board Task Force members participating via teleconference:**

Dan Montgomery – ASB Member and Chair of Auditor Reporting Task Force (Compliance Frameworks session only)

**Observers attending in person:**

Laura Billingsley – Practitioners Publishing Company  
Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing Loss Prevention Specialist  
Joseph Wolfe - Risk Management Consultant, Aon Affinity – Professional Firms

**Observers attending via teleconference:**

Jessica Luttrull – National Association of State Boards of Accountancy, Associate Director – National Registry

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met January 8 – 9, 2019 in La Jolla, CA. The following issues were discussed, and actions taken:

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

### **Chair's Report**

M. Fleming welcomed the attendees. The meeting began with a presentation to C. Landes in appreciation for his years of guidance to the ARSC and upon his retirement. The ARSC thanked Chuck for his leadership and expressed that the profession has benefited from his years working with the ARSC as the SSARs are appreciably better than they were 15 years ago.

### **Activities Since November 2018 ARSC Meeting**

M. Fleming stated that the Attestation Standards Task Force has been active in connection with the joint ARSC/ASB project to revise AT-C sections 210 (review/limited assurance) and 215 (agreed-upon procedures). Activities included a conference call on November 20, 2018 with the Task Force co-Chairs and AICPA Audit & Attest Standards staff, an in-person meeting in Chicago on December 4, 2018 to discuss and review preliminary proposed revisions to the draft standards to address concerns raised in the comment letter process, and a conference call with representatives of the Professional Ethics Executive Committee on December 17, 2018 to solicit preliminary PEEC views on related independence matters. M. Fleming thanked Task Force members D. Ard and D. Johnson for their efforts and dedication to the furtherance of the project.

### **Update on ARAG Activities**

D. Verity stated that the Assurance Research Advisory Group met in early December to consider and approve research projects received. While the ARAG did not receive any proposals on the limited assurance topic, the ARAG has officially designated \$15,000 and 120 participants for a commissioned study on the topic. The ARAG has also agreed to move away from the current model where the ARAG sends out requests for proposals and then considers the proposals. Instead, starting in 2019, the ARAG will move toward a commissioned-based model in which the ARAG directly engages with qualified research teams to perform the studies that are most relevant to the profession. The limited assurance project will be the first project under the new model. Carl Mayes, AICPA Associate Director – CPA Quality & Evolution, will lead a conference call with D. Verity, M. Fleming, B. Dohrer, and M. Glynn on January 11 to understand the ARSC's expectations and needs.

### **Materiality Definition Task Force**

The Auditing Standards Board has commenced a project to align the definition of *materiality* in the auditing literature with that used by FASB. V. Pitkin is representing the ARSC on that task force as the revised definition would be expected to carry over to the SSARs. V. Pitkin stated that the task force recently scheduled its first conference call meeting and that she would have more to report at the May 2019 ARSC meeting.

### **Identifying City and State of Addressee in CPA Reports**

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. While the ARSC is supportive of the proposal, support may not be as strong with the

ASB. The ARSC will not move forward on the proposal if a corresponding requirement is not included in the revised auditor reporting suite of standards.

#### Rich Miller

M. Fleming acknowledged that this meeting would be the last that in which R. Miller is participating. M. Fleming stated that R. Miller's contributions to the ARSC discussions have been substantive and very important as the ARSC issues standards in the public interest. R. Miller thanked the ARSC and wished M. Jones well as he provides support from the AICPA's Office of the General Counsel to the ARSC.

#### Director's Report

B. Dohrer presented the Director's Report and stated that he appreciated the ARSC's commitment to developing revised standards for attestation reviews and agreed-upon procedures engagements that are in the public interest and cooperating and compromising with the ASB as the project has evolved.

B. Dohrer reminded the ARSC that the ASB is meeting the subsequent week and that at that meeting, the ASB is expected to:

- Vote to ballot for issuance as final the proposed SAS, *Auditor Reporting and Amendments Addressing Disclosures in Audits of Financial Statements*. The SAS is expected to be issued in early Spring. The standard will be effective for audits of financial statements for periods ending on or after December 15, 2020 and early implementation will not be permitted.
- Approve the proposed revised AU-C section 500, *Audit Evidence* (AU-C section 500) as an exposure draft.
- Continue discussions on the proposed SAS, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*
- Discuss comments received on the public exposure of the proposed SSAE, *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification* and provide guidance to the Attestation Standards Task Force on the direction of potential revisions to the proposed standard.
- Discuss potential revisions to standards included in AU-C sections 800 – 899, *Special Considerations* including with regard to the issue of whether all special-purpose frameworks are fair presentation frameworks.
- Meet with the Technical Issues Committee and with the Assurance Services Executive Committee to discuss projects of mutual interest.

Approval of highlights from the November 13-15, 2018 meeting

V. Pitkin made a motion that the ARSC approve the highlights of the November 13-15, 2018 meeting as presented. D. Verity 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 the proposed revised AR-C sections 60, 70, 80, and 90 as directed by the ARSC at its meeting in November 2018 and for consistency with proposed revisions to AU-C section 800 proposed by the Auditor Reporting Task Force and being considered by the ASB at its meeting in January 2019.

D. Montgomery presented a PowerPoint presentation in order to provide additional education on the general vs. special purpose and fair presentation vs. compliance frameworks issues. In response to a question from M. Fleming, D. Montgomery stated that an example of an *implicit* acknowledgment that a framework is *fair presentation* would be a contractual basis of accounting if the parties are looking for a report with an opinion or conclusion as to whether the financial statements are fairly presented in accordance with the terms of the contract. Also, D. Montgomery stated that there has been a historical presumption that the cash- and tax-bases of accounting are fair presentation. M. Fleming thanked D. Montgomery for his participation in the ARSC meeting.

Definition of “financial reporting framework”

The ARSC discussed the following from the definition of *financial reporting framework* from extant AR-C section 60:

The term fair presentation framework refers to a financial reporting framework that requires compliance with the requirements of the framework and does one of the following:

- a. Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework.
- b. Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in rare circumstances.

The ARSC believes that the “explicit or implicit” acknowledgment trigger, while it has not been an issue when virtually all frameworks are considered *fair presentation*, will result in practice issues and confusion with the introduction of *compliance frameworks*. The ARSC believes that the issue can be addressed by being specific as to what a fair presentation framework is and proposes that this can be accomplished by revising the definition as follows:

**Financial reporting framework.** A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements; for example, U.S. generally accepted accounting principles, International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board (IASB), or a special purpose framework. *A financial reporting framework may be a fair presentation framework or a compliance framework.*

~~The term A fair presentation framework refers to a financial reporting framework that requires compliance with the requirements of the framework and is one of the following:~~

- ~~a. acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or~~ *A framework developed and issued by a designated accounting standard setter*
- ~~b. acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in rare circumstances. A framework that explicitly states that it is intended to be a fair presentation framework~~
- c. The cash- or tax-basis of accounting*
- d. Any other framework in which the resulting financial statements include a description as to how such financial statements differ from GAAP.*

~~Any other framework would be a compliance framework A financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgment in (a) or (b) is not a fair presentation framework.~~

The term *designated accounting standard setter* is a defined term in AR-C section 90 and is defined as follows:

**Designated accounting standards setter.** A body designated by the Council of the AICPA to promulgate GAAP pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

The result will be that the reference to *a framework developed and issued by a designated accounting standard setter* in sub-paragraph a above will result in GAAP, whether issued by FASB, GASB, FASAB, or IASB, being a *fair presentation framework*.

The reference to *a framework that explicitly states that it is intended to be a fair presentation framework* in subparagraph b above will result in the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities being a *fair presentation framework*.

The ARSC directed M. Glynn to provide the proposed revised definition to the ASB's Auditor Reporting Task Force for consideration. The expectation is that ARSC will ultimately converge with the definition that the ASB determines is appropriate for audits.

Definition of "financial statements"

M. Glynn stated that, for consistency with the corresponding definition in the auditing standards, it is proposed the following paragraph be added to the definition of *financial statements*:

In the context of *general purpose financial statements*, references to financial statements means a complete set of general purpose financial statements, including the related notes. In the context of *special purpose financial statements*, references to financial statements means a complete set of special purpose financial statements. The requirements of the applicable financial reporting framework determine the presentation, structure, and content of the financial statements and what constitutes a complete set of financial statements.

The definition of financial statements in the auditing literature includes the following as a second paragraph (the first paragraph of the definition is consistent with the proposed revised SSARs definition):

In the context of section 700, reference to *financial statements* means a complete set of general purpose financial statements, including the related notes. In the context of section 800, references to *financial statements* means a complete set of special purpose financial statements, including the related notes.

Further, M. Glynn stated that the ASB is considering the following revision to paragraph .08 of AU-C section 800:

**.08** Reference to *financial statements* in this **proposed SAS** section means "a complete set of special purpose financial statements, ~~including the related notes.~~" ~~The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.~~ The requirements of the applicable financial reporting framework determine the **presentation, structure, form** and content of the financial statements and what constitutes a complete set of financial statements. **Reference to "special purpose financial statements" includes the related disclosures.**

The ARSC directed that only the following sentence (consistent with the revision proposed to the ASB with respect to paragraph .08 of AU-C section 800) be added to the definition of *financial statements*:

The requirements of the applicable financial reporting framework determine the presentation, structure, and content of the financial statements and what constitutes a complete set of financial statements.

*Performance of Inquiry Procedures in a Review Engagement*

At its meeting in November 2019, the ARSC had directed that the lead in to the primary inquiry requirement paragraph in AR-C section 90 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...

After further discussion, the ARSC directed that the wording “having the appropriate competence and capabilities including expertise in financial reporting” be deleted and instead, that the 2019 edition of the SSARs Guide include guidance regarding the performance of inquiry procedures by appropriate members of the engagement team.

*Forming the Accountant’s Review Conclusion on the Financial Statements*

The ARSC agreed with the inclusion of the following paragraphs in AR-C section 90:

***.64*** *If the financial statements are prepared using a fair presentation framework, the accountant’s consideration should also include:*

***(a)*** *The overall presentation, structure and content of the financial statements;*

***(b)*** *Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.*

***.65*** *When the financial statements are prepared in accordance with a compliance framework, the accountant is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances, the accountant concludes that such financial statements are misleading, the accountant should discuss the matter with management and, depending on how it is resolved, should determine whether, and how, to communicate it in the accountant’s review report.*

The proposed paragraphs are consistent with paragraphs proposed to be included in revised AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* under consideration by the Auditing Standards Board.

In addition, the ARSC was concerned with the phrase “in extremely rare circumstances” in proposed paragraph .65 as well as the use of the phrase “extremely rare” in the

corresponding proposed application paragraph. While the ARSC would prefer that the phrases be stricken from the draft, it directed that the language remain consistent with the final AU-C section 800 so as to avoid practitioner confusion.

The ARSC does not believe that similar requirements are necessary in the compilation literature.

#### Conclusion in the Accountant's Review Report

The ARSC considered the required wording when the accountant expresses an unmodified conclusion and agreed to the following:

***.67 When the accountant expresses an unmodified conclusion, the accountant should, unless required by law or regulation, use one of the following phrases, as appropriate:***

***a. For financial statements prepared using a fair presentation framework:***

***Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements for them to be presented fairly in accordance with (the applicable financial reporting framework).***

***b. For financial statements prepared using a compliance framework:***

***Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements for them to be in accordance with (the applicable financial reporting framework).***

#### Implications for the Accountant's Review Report When Substantial Doubt Exists About the Entity's Ability to Continue as a Going Concern

The ARSC continued to question whether the illustrative emphasis-of-matter paragraphs regarding going concern should use the phrase "the Company has *suffered* recurring losses." The ARSC believes that a term such as "sustained" or "incurred" would be more appropriate than "suffered." However, the ARSC believes that it may cause confusion for practitioners if the wording was different from the corresponding wording in AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* and directed that the wording be consistent.

#### Effective Date

The ARSC reaffirmed its belief that the revisions affecting reporting in review engagements in the proposed SSARs should have an effective date of reviews of financial statements for periods ending on or after December 31, 2020 with early implementation precluded. However, the ARSC concluded that the same effective date should be included for the revisions that do not affect review reporting but that, for those revisions, early implementation should be permitted.

### Title of Proposed SSARS

The ARSC members stated that they have heard complaints from practitioners as well as the Center for Plain English Accounting that Omnibus standards are difficult to reference as practitioners do not readily recall what revisions were included in a particular Omnibus. To address this concern, the ARSC directed that the title of the proposed Omnibus should address the SSARSs areas that are proposed to be revised. For example, the proposed SSARSs could be titled *Materiality in a Review Engagement, Special Purpose Frameworks, and Adverse Review Conclusions*.

### **Agenda item #2 – Consideration of Project to Revise AT-C sections 210 and 215**

D. Ard presented the agenda material and stated that the objective was to discuss and obtain feedback regarding the Attestation Standards Task Force’s preliminary thoughts on potential revisions to AT-C sections 210, *Review Engagements* and 215, *Agreed-Upon Procedures Engagements*. D. Ard advised the ARSC that while a revised draft is not presented to the ARSC at the meeting, the Task Force plans to present a revised draft for the ARSC’s consideration at its meeting in May 2019.

### Independence

D. Ard summarized the Task Force’s communications with representatives of the Professional Ethics Executive Committee (PEEC) and the AICPA’s Professional Ethics Team and stated that the PEEC is scheduled to discuss potential independence considerations with respect to the proposed revised attestation standards at its meeting in February 2019.

### **Proposed Revisions to AT-C section 215**

#### Criteria

D. Ard stated that Grant Thornton LLP stated the following in its comment letter on the proposed revised attestation standards:

We strongly urge the Board to eliminate the notion of “criteria” from the AUP standard. Even as the AUP standard exists today, practitioners struggle with understanding what role “criteria” plays in an AUP engagement, and it appears inclusion of the term is unnecessary to sufficiently execute the engagement. We further note this concept is not in the extant International Standard on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. We believe instances of the use of criteria can be easily revised to focus on procedures and subject matter. This project provides the Board with an opportunity to make such revisions, and, in our opinion, improve the understandability of the standard in general.

After discussion, the ARSC concluded that, primarily because no conclusion or opinion is expressed in a practitioner’s agreed-upon procedures report, the concept of *criteria* should be eliminated from AT-C section 215.

*Sufficiency/Appropriateness of the Procedures*

The ARSC agreed with the Task Force that the proposed standard should continue to require the engaging party (and other parties, as appropriate) to agree that the procedures performed are *appropriate* for their intended purposes. The ARSC reached this conclusion after considering that the proposed International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (Revised) uses the term *appropriate*.

Further, the ARSC considered whether to permit the engaging party (and other parties, as appropriate), in addition to acknowledging that the procedures performed are *appropriate* to also acknowledge that the procedures performed are *sufficient, suitable*, or some other qualifier. After discussion, the ARSC recommended that while other adjectives would not be prohibited, no application guidance should be provided stating that other qualifiers can be used as it will cause confusion.

However, the ARSC strongly disagreed with continuing the prohibition on the practitioner taking responsibility for the appropriateness of the procedures. The ARSC expressed its disagreement after considering whether it made sense to permit the practitioner to design procedures but not take responsibility that such procedures are appropriate for the intended purpose of the engagement. The ARSC members believe that while some firms will be unwilling to take such responsibility, other firms may be willing to and that the standard should not prohibit those firms from doing so. The ARSC recommended that, if the practitioner does not accept responsibility for the appropriateness of the procedures, the practitioner's agreed-upon procedures report be clear that the practitioner does not accept such responsibility.

Also, in situations in which parties in addition to the engaging party agree to the appropriateness of the procedures performed, the ARSC recommended that it is sufficient for the engaging party to acknowledge that it received such agreement in the representation letter. The practitioner should not be required to receive the acknowledgment directly from such parties and that the practitioner could simply accept such representations from the engagement party without corroboration.

*Proposed Expansion of the Practitioner's Ability to Perform Procedures and Report in a Procedures-and-Findings Format Beyond That Provided by Extant AT-C Section 215*

The ARSC agreed that the proposed standard should be revised to clarify that engagements performed in accordance with extant AT-C section 215 could still be performed while also providing flexibility to perform procedures-and-findings engagements beyond that provided by extant AT-C section 215 by requiring:

- a. the practitioner to determine whether engagement circumstances are such that parties in addition to the engaging party should be asked to agree that the procedures performed are appropriate for their intended purpose;

- b. the practitioner to obtain the engaging party's agreement at the beginning of the engagement about whether parties in addition to the engaging party would need to agree to the appropriateness of the procedures performed; and
- c. to make clear to the engaging party that the parties that agree to the appropriateness of the procedures performed will be identified in the practitioner's report and, if no such additional parties exist, the report will state that no other party acknowledged that the procedures are appropriate.

The ARSC recommended that illustrative engagement letters and illustrative practitioner's agreed-upon procedures reports be prepared for each of the following scenarios:

- 1) The engaging party is the responsible party; the practitioner will assist in the development of the procedures as part of the agreed-upon procedures engagement; and the engaging party will be the only party that will acknowledge that the procedures performed are appropriate for the intended purpose of the engagement and that no other party will be requested to acknowledge that the procedures performed are appropriate for their purposes.
- 2) The engaging party is not the responsible party; the practitioner will assist in the development of the procedures as part of the agreed-upon procedures engagement and accepts responsibility that the procedures performed are appropriate for the intended purpose of the engagement; and other than the engaging party and the practitioner, no other party will be requested to acknowledge that the procedures performed are appropriate for their purposes.
- 3) The engaging party is the responsible party; the procedures that the practitioner performed were prescribed and the practitioner was precluded from performing or designing additional procedures; and the engaging party and one other party are the only parties that have acknowledged that the procedures performed are appropriate for the intended purpose of the engagement and that no other party was requested to acknowledge that the procedures performed are appropriate for their purposes.

The ARSC reaffirmed that it continues to support the practitioner's ability to issue a general-use report unless the procedures are prescribed and the practitioner does not have the ability to perform or design additional procedures. There should be no other instances in which it would be required to restrict the use of the practitioner's agreed-upon procedures report but the practitioner would not be precluded from restricting the use of any report.

*Requirement to Obtain a Representation Letter*

The ARSC agreed with the Task Force proposal to retain the representation letter requirements in extant AT-C section 215 when the engaging party is the responsible party. The ARSC also agreed with the Task Force's proposal to adopt a *should consider*

*requesting* requirement with respect to written representations from the responsible party when the engaging party is not the responsible party (the practitioner would still be required to request written representations from the engaging party).

However, the ARSC disagreed with the Task Force’s proposal to include a requirement that, when the written representations are not obtained, the practitioner include a statement to that effect in the agreed-upon procedures report.

### **Proposed Revisions to AT-C section 210**

#### **Change of Term “Review Engagement” to “Limited Assurance Engagement”**

The ARSC continues to support the change of the term *review engagement* to *limited assurance engagement*.

#### **Description of Procedures Performed in the Practitioner’s Report**

The ARSC continues to support the inclusion of a description of the procedures performed in the practitioner’s report in an engagement performed in accordance with AT-C section 210.

#### **Enabling the Practitioner to Express an Adverse Review Conclusion**

The ARSC continues to support the proposal to permit the expression of an adverse conclusion in an engagement performed in accordance with AT-C section 210.

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

The next in-person meeting of the ARSC will be May 7-8, 2019 at the AICPA’s offices in Washington, DC. At that meeting, the ARSC expects to vote to ballot to expose the proposed Omnibus SSARSs for public comment and to consider proposed revised AT-C sections 210 and 215 redlined for revisions to the exposure draft.

### **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 7-8, 2019 –Washington, DC
- August 13-14, 2019 – Denver, CO
- November 13-14, 2019 – Durham, NC (AICPA offices)