



**ACCOUNTING AND REVIEW SERVICES COMMITTEE (ARSC)
Meeting Highlights
May 7-8, 2019
Washington, DC**

MEETING ATTENDANCE

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
Michael Jones – Assistant General Counsel

AICPA staff attending via teleconference:

Kristy Illuzzi - Staff Liaison to the PCPS Technical Issues Committee (after 1:30 pm on May 8)

Observers attending in person:

Laura Billingsley – Practitioners Publishing Company (until 1:30 pm on May 8)
Jessica Luttrull – National Association of State Boards of Accountancy, Associate Director – National Registry
Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing Loss Prevention Specialist
Joe Zamboni – Senior Manager, Accounting & Financial Reporting Tools/Methodology

Observers attending via teleconference:

Joseph Wolfe - Risk Management Consultant, Aon Affinity – Professional Firms

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met May 7-8, 2019 at the AICPA’s offices in Washington, DC. The following issues were discussed, and actions taken:

Welcome and overview of meeting objectives

Presentation to J. Burkes and M. Fleming

In appreciation of their service to the ARSC and acknowledging that their ARSC terms expire after the meeting, J. Burkes and M. Fleming were presented with tokens of appreciation.

Chair's Report

M. Fleming welcomed the attendees. M. Fleming stated that he had attended the Auditing Standards Board's meeting in January 2019 and stated that the ASB was not requiring the inclusion of the city and state of the addressee in the auditor's report. As the ARSC had previously discussed, while it was amenable to including the requirement it would not include such a requirement for review and compilation reports if the ASB did not include a corresponding requirement for audit reports. J. Burkes stated that he is very disappointed that the ASB had decided to not include the requirement and acknowledged that a NASBA representative to the ASB dissented to the issuance of the final SAS over the issue. B. Dohrer stated that the ASB worked very hard to develop a requirement that would work with various business structures and that would not be misleading. B. Dohrer stated that there is no prohibition on including the city and state of the addressee and expects that some firms may include in their reports.

M. Fleming stated that the Attestation Standards Task Force continues to work very hard to finalize revised standards and thanked D. Ard and D. Johnson for representing the ARSC on that Task Force. M. Fleming also thanked V. Pitkin for representing the ARSC on the ASB's Materiality Task Force.

Update on ARAG Activities

D. Verity stated that the Assurance Research Advisory Group has selected research topics for inclusion in the ARAG's Call for Interest which will launch on June 1. The topics selected were:

- Materiality, and
- Levels of Assurance.

D. Verity reminded the ARSC members that the ARAG's objective is to support the AICPA's enhanced audit quality initiative and is targeting specific areas in which it is looking for academic research.

B. Dohrer stated that, as part of the levels of assurance topic, research is requested as to whether there would be support for an engagement in which the accountant obtains a level of assurance between that obtained in an audit (reasonable) and a review (limited).

Director's Report

B. Dohrer presented the Director's Report and reminded the ARSC that the ASB is meeting May 20-23. B. Dohrer provided an overview of the ASB's agenda for its May 20-23, 2019 meeting.

Approval of highlights from the January 8-9, 2019 meeting

V. Pitkin made a motion that the ARSC approve the highlights of the January 8-9, 2019 meeting as presented. J. Burkes seconded the motion and the ARSC unanimously voted to approve the highlights.

Agenda item #1 – Proposed Revisions to SSARSs – Materiality/Adverse Conclusions/Special Purpose Frameworks

M. Glynn stated that the objective was to consider the proposed SSARS, *Materiality in a Review of Financial Statements; Adverse Conclusions; and Special Purpose Frameworks* and vote to ballot the proposed SSARS for public comment.

Revision to AR-C section 70 when the accountant withdraws from a preparation engagement

The ARSC agreed to propose the following revisions to AR-C section 70 when the accountant intends to withdraw from a preparation engagement:

- .14** The accountant should ensure that a statement is included on each page of the financial statements indicating, at a minimum, that "no assurance is provided" on the financial statements. If the accountant is unable to include a statement on each page of the financial statements, the accountant should (Ref:par..~~A13~~**A12**)
- a. issue ~~either~~ a disclaimer that makes clear that no assurance is provided on the financial statements; (Ref:par..~~A14~~**A13**)
 - b. perform a compilation engagement in accordance with section 80, *Compilation Engagements*; or
 - c. withdraw from the engagement **and inform management of the reasons for withdrawing.** (Ref: par. **A14 - .A15**)

Revision to AR-C section 70 regarding misleading financial statements

The ARSC agreed that paragraphs .A20-.A21 of AR-C section 80 be repeated as paragraphs .A21-.A22 of AR-C section 70.

Proposed amendments to AT-C section 210

The ARSC agreed with the specific request for comment included in the proposed wrap document with respect to the consistency between proposed revisions to both AR-C section 90 and AT-C section 210 regarding the expression of an adverse conclusion in a review engagement.

Additional edits to the proposed SSARS

The ARSC directed that the following additional edits be made to the proposed SSARS ED:

AR-C section 60:

- The definition of the term *designated accounting standard-setter* should be moved from AR-C section 90 to AR-C section 60

AR-C section 70:

- Paragraph .17 should be revised as follows:

.17 If the accountant becomes aware that the records, documents, explanations, or other information, including significant judgments, used in the preparation of the financial statements are incomplete, inaccurate, or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information. *If management fails to provide such additional or corrected information, the accountant should withdraw from the engagement and inform management of the reasons for withdrawing.* (Ref: par. .A14-.A15)

- Paragraph .20 should be revised as follows:

.20 When, after discussions with management, the accountant prepares financial statements that omit substantially all disclosures required by the applicable financial reporting framework, the accountant should disclose such omission *either* in the financial statements *or in an accompanying disclaimer.* (Ref: par. .A18A19)

- Paragraph .21 should be revised as follows:

.21 The accountant should not prepare financial statements that omit substantially all disclosures required by the financial reporting framework if ~~the accountant becomes aware that the omission of substantially all disclosures was undertaken with the intention of misleading users of such financial statements,~~ *in the accountant's professional judgment, such financial statements would be misleading to users of the financial statements.* (Ref: par. .A19A20 – .A22)

AR-C section 80:

- Paragraph .A27 should be revised as follows:

.A27 *There may be circumstances in which a special-purpose framework regulatory or contractual basis of accounting is based on a financial reporting general purpose framework established by ~~an authorized or recognized standards setting organization~~ a designated accounting standards setter, such as U.S. GAAP, or by law or regulation, but does not comply with all the requirements of that framework. An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of U.S. GAAP. If the financial statements purport to be prepared in accordance with a general-purpose framework and such financial statements are materially misstated due to a departure from that framework, paragraphs .29-.33 apply.*

.A28 When ~~this-it~~ is acceptable in the circumstances of the engagement to report in accordance with this section, on special purpose financial statements that purport to be prepared in accordance with a regulatory or contractual basis of accounting that is based on a general purpose framework, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply that the special purpose framework includes all of the requirements of, or is the same as, the financial reporting framework on which the special purpose framework is based. In the preceding example of the contract in paragraph .A27, the description of the applicable financial reporting framework would refer to the financial reporting provisions of the contract, rather than make any reference to U.S. GAAP. The requirement in paragraph .21 is designed to avoid misunderstandings about compliance with the general purpose framework.

The phrase “rather than make any reference to U.S. GAAP” was deleted as the ARSC was concerned that the application guidance would cause accountants to conclude that the description of the framework in the financial statements could not say something like “The accompanying financial statements are prepared in accordance with the financial reporting provisions of contract X. While those financial reporting provisions are not in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), they are based on U.S. GAAP but exclude...” M. Glynn will communicate the ARSC’s directive to the ASB’s Auditor Reporting Task Force so that a similar edit could be considered with respect to proposed revisions to AU-C section 800.

- For consistency with the proposed revisions to paragraph .21 of AR-C section 70, paragraph .26 should be revised as follows:

.26 The accountant should not issue an accountant's compilation report on financial statements that omit substantially all disclosures required by the applicable financial reporting framework ~~unless the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements~~ *if, in the accountant's professional judgment, such financial statements would be misleading to users of the financial statements.* (Ref: par. .A21)

AR-C section 90:

- Paragraph .08 should be deleted as the requirement to withdraw from the engagement when limited assurance cannot be obtained is stated in paragraph .45.
- The definition of *designated accounting standard-setter* should be deleted from paragraph .09 and moved to AR-C section 60.

- The definition of *limited assurance* in paragraph .09 and the corresponding application guidance should be revised as follows:

Limited assurance. The level of assurance obtained at which the risk that the accountant expresses an inappropriate conclusion is greater than it is in an audit engagement but is at an acceptably low level 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. ~~The combination of the nature, timing, and extent of evidence gathering procedures, while limited compared to an audit engagement, is at least sufficient for the accountant to obtain a level of assurance that is meaningful to the accountant.~~ (Ref: par. A5)

.A5 Sufficient appropriate review evidence is required to obtain limited assurance to support the accountant's conclusion. Review evidence is cumulative in nature and is primarily obtained from the procedures performed during the course of the review. The combination of the nature, timing, and extent of evidence gathering procedures is limited compared to an audit engagement.

- The definition of *pervasive* in paragraph .09 should be revised as follows:

Pervasive. A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements ~~or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate review evidence.~~ Pervasive effects on the financial statements are those 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*
- *with regard to disclosures, are fundamental to users' understanding of the financial statements.*

- Paragraph .A54 should be revised as follows:

~~.A93~~*.A54 The accountant's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected noncompliance with laws and regulations to a party outside the entity. However, the accountant's legal responsibilities vary by jurisdiction, and in certain circumstances, the duty of confidentiality may be overridden by statute, the law,*

or courts of law. In the following circumstances, a duty to notify parties outside the entity may exist:

- In response to a court order
- In compliance with requirements for the reviews of entities that receive financial assistance from a government agency

Because potential conflicts with the accountant's ethical and legal obligations for confidentiality may be complex, the accountant may consult with legal counsel before discussing noncompliance with parties outside the entity.

A duty to disclose to parties outside of the entity may exist in the following circumstances:

- To comply with certain legal and regulatory requirements
 - To a successor accountant when management has given permission for communication between the predecessor accountant and the successor accountant
 - In response to a subpoena
- References to financial statements being fairly presented should be deleted from paragraphs .70-.71 as follows:

.70-69 *When the accountant expresses a qualified conclusion on the financial statements because of a material misstatement, the accountant should, unless otherwise required by law or regulation, use the following phrase:*

Based on my (our) review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be ~~presented fairly~~ in accordance with (the applicable financial reporting framework).

.71-70 *When the accountant expresses an adverse conclusion on the financial statements, the accountant should, unless otherwise required by law or regulation, use the following phrase:*

Based on my (our) review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements are not ~~presented fairly, in all material respects,~~ in accordance with (the applicable financial reporting framework).

- Paragraph .A114 should be revised consistent with the revisions to paragraph .A27 in AR-C section 80 explained in the preceding section.

- The list of required emphasis-of-matter paragraphs in paragraph .A125 should be revised to include the following:
 - ***In accordance with paragraph .94 when, after considering conditions or events and management’s plans, the accountant concludes that substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time remains.***

Changes to Previously Issued Financial Statements

D. Johnson raised the issue that paragraph .13 of AU-C section 708, *Consistency of Financial Statements* requires the auditor to include an emphasis-of-matter paragraph in the auditor’s report when there are adjustments to correct a material misstatement in previously issued financial statements. The auditor is required to include this type of emphasis-of-matter paragraph in the auditor’s report when the related financial statements are restated to correct the prior period material misstatement. AR-C section 90 does not include a comparable requirement nor does ISRE 2400 (Revised).

The ARSC discussed whether to propose to include requirements and application guidance in AR-C section 90 to address the situation when there are adjustments to correct a material misstatement in previously issued financial statements. The ARSC did not come to a conclusion and decided to include a request for feedback in the exposure draft regarding whether respondents believe that such requirements would be in the public interest.

Proposed effective date

The ARSC directed that the proposed effective date be for engagements performed in accordance with SSARSs for financial statements for periods ending on or after June 15, 2021 with early implementation permitted.

Comment period end date

The ARSC directed that the comment period end date be September 15, 2019. The comments received will be discussed at a public ARSC meeting to be scheduled in October 2019.

Vote to ballot the proposed SSARS for public comment

After discussion, D. Verity made a motion, seconded by V. Pitkin, to ballot the proposed SSARS for public comment. The motion passed unanimously.

Agenda item #2 – Revisions to AT-C sections 210 and 215

D. Ard presented the agenda material and stated that the objective was to discuss the following:

- Revisions to the proposed AT-C sections 210, *Review Engagements* and 215, *Agreed-Upon Procedures Engagements* included in the July 2018 exposure draft, *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification (ED)*, marked to respond to comment letters on the ED

- Issues related to the ED

After walkthrough, the ARSC concluded that no substantive revisions were necessary to the draft of the proposed revised AT-C section 210. With respect to the proposed revised AT-C section 215, the ARSC directed that an additional illustrative engagement letter be presented with respect to an engagement in which the engaging party is not the responsible party.