



ACCOUNTING AND REVIEW SERVICES COMMITTEE (ARSC)

Meeting Highlights

October 23, 2019

Via Zoom Video Conferencing

MEETING ATTENDANCE

Committee members present:

Denny Ard, Chair
David Johnson
Bruce Nunnally
Victoria Pitkin
Thomas Prothro
Dustin Verity
Michael Westervelt

AICPA staff present with the privilege of the floor:

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 observing:

Jennifer Gum – Manager, Peer Review
Kristy Illuzzi - Staff Liaison to the PCPS Technical Issues Committee
Weiwei Tang – Manager, Product Management and Development
Joe Zamboni, - Senior Manager, Accounting & Financial Reporting Tools & Methodology

Observers:

Jeremy Dillard – SingerLewak LLP
Ignatius Jackson – Ignatius L. Jackson, CPA LLC
Carrie Kostelec – Wolters Kluwer
Jessica Luttrull – National Association of State Boards of Accountancy, Associate Director – National Registry
Sheryl Messer – Thompson Reuters
Jacques Rossou – RSM US LLP
Brian Ross – Plante Moran PLLC
Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing Loss Prevention Specialist
Joseph Wolfe - Risk Management Consultant, Aon Affinity – Professional Firms

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met via Zoom video conferencing on October 23, 2019. The following issues were discussed, and actions taken:

Welcome and overview of meeting objectives

Chair's Report

D. Ard welcomed the attendees. D. Ard stated that during the time since the last ARSC meeting, a significant amount of effort was directed toward the proposed revised AT-C section 215, *Agreed-Upon Procedures Engagements*. At its meeting the following week, the ASB will be asked to vote to issue the proposed standard as a final SSAE. In addition, the ASB will discuss issues related to the proposed revisions to AT-C sections 205, *Examination Engagements* and 210, *Review Engagements*. B. Dohrer stated that drafts of proposed revised AT-C sections 205 and 210 will not be presented to the ASB at the meeting. D. Ard thanked D. Johnson for all his efforts on the Attestation Standards Task Force.

D. Ard stated that he attended the AICPA Fall Chairs meeting on October 10-11 at the AICPA's offices in New York. The meeting included the Chairs and staff liaisons from the ARSC, ASB, ASEC, Peer Review, PEEC, and TIC as well as B. Dohrer, Jim Brackens, Sue Coffey, and Carl Mayes. The group discussed the enhancing audit quality activities and received updates from all of the committees. D. Ard stated that it was very productive and will help direct the ARSC's activities going forward.

V. Pitkin has served as a representative of the ARSC on the ASB's Materiality Task Force. V. Pitkin stated that the ASB will be asked to vote to issue proposed SAS/SSAE as final standards at its meeting next week. V. Pitkin stated that corresponding revisions will be made to AR-C section 90 and that the revisions are not expected to result in a significant change in practice for practitioners performing audit, review, or attestation engagements.

D. Verity has served as the ARSC's representative to the Assurance Research Advisory Group (ARAG). D. Verity stated that there was nothing to report and that he is facing a mandatory roll-off from that Committee on January 1, 2020. B. Nunnally has agreed to succeed D. Verity as the ARSC representative to ARAG.

Director's Report

B. Dohrer presented the Director's Report and reminded the ARSC that the ASB is meeting October 28-31, 2019 at the AICPA's offices in New York. B. Dohrer provided an overview of the ASB's agenda for that meeting.

B. Dohrer stated that he sees a significant opportunity for the ARSC to provide guidance and deal with emerging issues quickly now that the significant standards setting projects have been completed or are nearing completion.

Agenda item #1 – Comments Received on the Materiality/Adverse Conclusions/Special Purpose Frameworks Exposure Draft

M. Glynn stated that the objective was to discuss and obtain feedback from the ARSC on comments received on the public exposure of the proposed SSARS, *Materiality in a Review of Financial Statements; Adverse Conclusions; and Special Purpose Frameworks*. It is anticipated that a revised draft of the proposed standard will be

presented to the ARSC at its meeting in January 2020. At that meeting, it is expected that the ARSC will be asked to vote to issue the proposed standard as a final SSARS.

M. Glynn stated that 22 comment letters were received from a variety of interested parties including large international networks/firms, smaller firms, state societies, and regulators.

Issue 1 - Definition of limited assurance

M. Glynn stated that, as part of the exposure draft, the ARSC requested that commenters specifically provide their views with respect to the proposed definition of *limited assurance* and whether the commenter believes that defining the term will assist practitioners in planning and performing high-quality review engagements. If the commenter believes that the proposed definition is not sufficient or is inappropriate, the ARSC requested that the commenter provide their thoughts about how *limited assurance* should be defined. The ARSC discussed the comments received on the proposed definition of *limited assurance* and directed that:

- AR-C section 90 include a definition of *limited assurance*.
- The proposed definition of *limited assurance* in paragraph .05 of AR-C section 90 be revised to read as follows:

Limited assurance. A level of assurance that is less than the reasonable assurance obtained in an audit engagement but is at an acceptable level as the basis for the conclusion expressed in the accountant's review report. (Ref: par. .A5)

- The proposed application paragraph .A5 be revised to read as follows:

.A5 Sufficient appropriate review evidence, consisting primarily of the results of the accountant's analytical procedures and inquiries, is required to obtain limited assurance to support the accountant's conclusion. Review evidence is cumulative in nature and 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.

T. Prothro and M. Westervelt stated that it is important that any definition that might be included in revisions to AU-C section 930, *Interim Financial Information* and AT-C section 210, *Review Engagements* be consistent with the definition in AR-C section 90. B. Dohrer reminded the ARSC that AU-C section 930 is to be taken in the context of the practitioner also auditing the entity's annual financial statements so, it could be argued that the definition could be somewhat different in that instance than that in a review performed in accordance with AR-C section 90.

Issue 2 - Explicit requirements with respect to materiality

M. Glynn stated that, as part of the exposure draft, the ARSC requested that commenters specifically provide their views on the proposed explicit 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 and whether commenters believe that the proposed application guidance is helpful and sufficient for accountants in applying the proposed requirement. Additionally, commenters were requested to provide their views on the proposed requirement for the accountant to design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures. The ARSC discussed the comments received on the proposed explicit requirements with respect to materiality and directed that:

- AR-C section 90 include the proposed requirement for the accountant to design and perform analytical procedures to address all material items in the financial statements, including disclosures. The ARSC members all individually reaffirmed their belief that the accountant’s awareness of the areas in which the accountant believes there are increased risks of material misstatements (that is, the accountant’s “risk awareness”) would impact the nature and extent of procedures but would not preclude the accountant from performing procedures on financial statement items in which the risk of material misstatement is lower. The ARSC strongly believes that the SSARSs should not be less rigorous than ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements* in this regard.
- Additional application guidance as suggested by KPMG LLP, Technical Issues Committee, and RSM US LLP is not needed. M. Westervelt stated that the inclusion of such additional application guidance may inadvertently result in a standard that is overly prescriptive. B. Nunnally was concerned that the suggested additional application guidance would result in some accountants performing a formal risk assessment in a review engagement. B. Dohrer stated that an application paragraph that stated that, in addition to quantitative factors, the accountant may need to consider qualitative factors may be helpful.

Issue 3 – Ability to express an adverse conclusion

M. Glynn stated that, as part of the exposure draft, the ARSC requested that commenters specifically provide their views on the proposal to permit the accountant to express an adverse conclusion for an engagement performed in accordance with AR-C section 90 when he or she determines, or is otherwise aware, that the financial statements are materially misstated and the effects of the matter or matters are both material and pervasive to the financial statements. Commenters were also asked to provide their views regarding whether the reasons to permit an adverse conclusion in accordance with AR-C section 90 are consistent with the reasons to permit an adverse conclusion in accordance with AT-C section 210.

In their comment letters on the exposure draft, Illinois CPA Society and Grant Thornton suggested that, proposed paragraph 71 related to the Basis for Adverse Conclusion paragraph should also require the accountant to include language that explains that the

effects of the departure on the financial statements determined by management or known to the accountant as the result of the accountant's procedures may not have identified all departures from the applicable reporting framework and the related effects on the financial statements. V. Pitkin, D. Ard, and T. Prothro individually stated that while they remain fully supportive of the proposal to permit an accountant to issue an adverse conclusion, they would not support the inclusion of additional language as suggested by Illinois CPA Society and Grant Thornton.

D. Ard stated that governmental accountants expressed strong support for the ability to express an adverse conclusion.

D. Verity stated that he would prefer that an illustrative report showing an adverse review conclusion be included in Exhibit C to AR-C section 90. B. Dohrer stated that such an illustrative example should be prepared and presented to the ARSC at its meeting in January 2020 for consideration. The inclusion of such an illustration may reduce the risk that accountants include wording that would be more appropriate in an adverse audit opinion.

M. Westervelt suggested that additional application guidance be included regarding the accountant's consideration of withdrawal instead of the issuance of an adverse conclusion. M. Westervelt suggested that the auditing literature may have some guidance that would be appropriate.

Issue 4 – Preparation engagements – Informing management for the reasons for withdrawal

M. Glynn stated that, as part of the exposure draft, the ARSC asked commenters to provide their views on the proposed requirements for the accountant to inform management of its reasons for withdrawing when the accountant intends to withdraw from the preparation engagement and whether commenters believe that the proposed application guidance is helpful and sufficient for accountants in applying the proposed requirement.

M. Westervelt directed the ARSC to the comment letter submitted by CliftonLarsonAllen LLP which stated:

When providing preparation services, there is the potential for management to be unable to provide corrected information to support amounts reported in their financial statements. There is typically no intention to mislead, so the financial statements would identify a departure from the applicable financial reporting framework. This departure could be alleviated in the future as the client's books and records are improved.

Paragraph .18 of AR-C section 70 states: "When, after discussions with management, the accountant prepares financial statements that contain a known departure or departures from the applicable financial reporting framework (including inadequate disclosure), the accountant should disclose the material misstatement or misstatements in the financial statements. (Ref: par. .A17)"

Based on these facts, we suggest you include a separate paragraph to state:

If management is unable to provide such additional or corrected information, the accountant should follow the guidance in paragraph .18. If management is unwilling to provide such additional or corrected information, the accountant should consider withdrawing from the engagement and inform management of the reasons for withdrawing. (Ref: par. .A14–.A15)”

The above wording allows the accountant to apply professional judgment and to respond to various facts and circumstances when providing preparation services.

The ARSC discussed and determined that paragraph .17 of AR-C section 90 should be revised to read 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 disclose a material misstatement or misstatements in the financial statements in accordance with paragraph .18 or withdraw from the engagement and inform management of the reasons for withdrawing. (Ref: par. .A14–.A15)

Issue 5 – Professional skepticism

M. Glynn stated that, as part of the exposure draft, the ARSC asked commenters to provide their views on the proposed explicit requirement for the accountant to plan and perform the review with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated and whether they believe that the proposed application guidance is helpful and sufficient for accountants in applying the proposed requirement. The ARSC agreed that the proposed requirement and application guidance as presented in the exposure draft is appropriate.

Issue 6– Additional required inquiries of management

M. Glynn stated that, as part of the exposure draft, the ARSC asked commenters to provide their views on the proposed additional required inquiries of members of management who have responsibility for financial and accounting matters concerning the financial statements.

The ARSC discussed a comment made by Grant Thornton LLP suggesting that the ARSC consider if “significant” is a more appropriate threshold for these inquiries than “material” in order to align this threshold with the other inquiries included in this requirement. After discussion, the ARSC determined to leave the proposed requirements as presented in the exposure draft.

Issue 7– Remaining alert for related parties and related party transactions

M. Glynn stated, as part of the exposure draft, the ARSC asked commenters to provide their views on the proposed additional required procedures with respect to the accountant's consideration of related parties in a review of financial statements.

The ARSC considered the following comment made by Grant Thornton LLP:

We support the proposed additional required procedures with respect to the accountant's consideration of identified significant transactions outside the entity's normal course of business in a review of financial statements in paragraph 33 of AR-C section 90. However, we suggest that the Committee also insert the related application guidance in paragraphs .A26 to .A28 of AU-C section 550 into AR-C section 90.

D. Ard and M. Westervelt stated that they support including the examples from paragraph .A26 of AU-C section 550. However, they stated that the guidance in paragraphs .A27-..A28 of AU-C section 550 are not practical for a review of financial statements.

Issue 8 – Documentation

M. Glynn stated, as part of the exposure draft, the ARSC asked commenters to provide their views on the proposed additional required documentation in a review of financial statements.

The ARSC determined that the proposed requirements as presented in the exposure draft are appropriate.

Issue 9 – Restatements of previously issued financial statements

M. Glynn stated, as part of the exposure draft, the ARSC asked commenters to comment on whether they believe that AR-C section 90 should be revised to include explicit reporting requirements and guidance with respect to correction of a material misstatement in previously issued financial statements. If so, respondents were further asked to comment on the appropriateness of the requirements and associated application guidance suggested.

The ARSC directed that the proposed requirements and guidance presented in the explanatory material to the exposure draft be included in the proposed revised AR-C section 90.

The ARSC further concluded that it agrees with the following comment made by Grant Thornton LLP:

We believe AR-C section 90 should be revised to include explicit reporting requirements and guidance with respect to the correction of a material misstatement in previously issued financial statements. We believe this requirement is important, even when the accountant's review report focuses on single-year financial statements. Accordingly, we recommend the ASRC clarify that these reporting requirements also apply to an accountant's review report on single-year financial statements.

The ARSC disagreed with the suggestion that the proposed reporting requirement be included in AR-C section 80, *Compilations of Financial Statements*.

Issue 10 – Proposed effective date

M. Glynn stated that the exposure draft includes a proposal that, if issued as final, the revised AR-C sections would be effective for engagements performed in accordance with SSARSs on financial statements for periods ending on or after June 15, 2021. Early implementation would be permitted. As part of the exposure draft, the ARSC asked commenters whether they were supportive of the proposed effective date.

After discussion, the ARSC directed that the effective date be revised so that the proposed standard is effective for engagements performed in accordance with SSARSs on financial statements for periods ending on or after December 15, 2021. The ARSC believes that most firms update their methodologies on an annual basis.

Issue 11 – Paragraph specific and overall comments

M. Glynn stated that Deloitte & Touche LLP listed certain projects that are in progress with the Auditing Standards Board and suggested:

In each instance the finalization of the respective SSAEs and SASs may have a related impact that the ARSC may wish to consider as it pertains to AR-C 60 and AR-C 90 of the proposed ED. In order to avoid undue disruption to accountants performing review engagements of financial statements by making further possible amendments to the SSARS, D&T suggests that it may be prudent for ARSC to wait until the aforementioned standard setting activities have been concluded prior to the finalization of the proposed ED.

B. Dohrer stated the ASB's standard setting agenda does not directly impact the ARSC's standard setting activities. The ARSC agreed that it would continue working on the proposed SSARS.

Agenda item #2 – Consideration of project to revise AT-C section 215

D. Ard walked the ARSC through the agenda material submitted to the Auditing Standards Board for its October 28-31, 2019 meeting. The ASB's objective is to vote to issue the proposed AT-C section 215, *Agreed-Upon Procedures Engagements*, and the related amendments to AT-C section 105, *Concepts Common to All Attestation Engagements*, as a final standard.

The ARSC had no additional comments and concluded that it supported the ASB's expected vote to issue as a final standard.

B. Dohrer thanked the ARSC for its thought leadership and work on the proposed revised agreed-upon procedures standard.

Wrap-up

The next in-person meeting of the ARSC will be January 8-9, 2020 in San Diego. At that meeting, the ARSC expects to vote to ballot to issue the proposed SSARS,

Materiality in a Review of Financial Statements; Adverse Conclusions; and Special Purpose Frameworks as a final standard.

The ARSC also expects to schedule additional meetings for 2020 at its meeting in January 2020.