Agenda Item 1

Discussion Memorandum: Materiality/Adverse Conclusions

Objective of Agenda Item

To discuss and obtain feedback from the ARSC on comments received on the public exposure of the proposed Statement on Standards for Accounting and Review Services, *Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks* (ED).

A revised draft of the proposed standard will be presented to the ARSC for consideration 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 SSARSs.

Background

The ED was issued in June 2019. If the proposed standard were issued as a final standard, the most significant revisions would be to AR-C section 90, *Review of Financial Statements* to:

- Explicitly 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.

- Permit the accountant to express an adverse conclusion when he or she determines, or otherwise becomes aware, that the financial statements are materially misstated, and the effects of the matter(s) are both material and pervasive to the financial statements.

The aforementioned proposed revisions, as well as other proposed revisions, would further converge AR-C section 90 with International Standard for Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements.* The ARSC's goal in converging the SSARSs review literature with ISRE 2400 (Revised) is to facilitate an accountant's ability to perform and report on engagements and lessen any confusion about the level of assurance obtained in accordance with either set of standards.

Additionally, the ARSC also considered revisions to SSARSs for consistency with proposed revisions to AU-C section 800, *Special Considerations— Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* that the Auditing Standards Board had been considering. Initially, those proposed revisions would have introduced the concept of a compliance framework, which is included in ISA 800 (Revised) *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* and ISRE

2400 (Revised). However, the ASB's Auditor Reporting Task Force proposed that the ASB not make any revisions that would incorporate the concept of a compliance framework at the ASB's meeting in May 2019. Therefore, the proposed revisions to SSARSs have excluded any revisions to incorporate the concept of a compliance framework but does include certain other revisions for consistency with the proposed revisions to AU-C section 800 as well as Statement on Auditing Standards No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements* (issued April 2019).

The proposed SSARS also aligns certain concepts with the auditing standards. While there are important differences between an audit engagement and an engagement performed in accordance with SSARSs, certain concepts, such as materiality, are consistent regardless as to the level of service that is performed on the financial statements.

22 comment letters were received from a variety of interested parties including large international networks/firms, smaller firms, state societies, and regulators. All comment letters are available at (ARSC members are assumed to have read these comment letters) https://www.aicpa.org/research/exposuredrafts/compilationreview/proposed-ssars-materiality-comment-letters.html.

Issues for ARSC Consideration

***Issue 1 - Definition of* limited assurance**

The ED includes a proposal to revise paragraph .05 of AR-C section 90 to include the following definition of *limited assurance*:

> **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. (Ref: par. .A5)

The associated proposed application guidance reads as follows:

> **.A5** Sufficient appropriate review evidence 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.

ISRE 2400 (Revised) defines *limited assurance* as follows:

> The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this ISRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the

level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements.

ARSC did not include the concept of a meaningful level of assurance in the proposed definition in AR-C section 90 because ARSC believes that it would be replacing one subjective term in *limited* with another in *meaningful*. Additionally, ARSC believes that some accountants may conclude that a *meaningful level of assurance* is an insufficient level.

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.

Of the 22 comment letters received on the ED, 20 provided specific responses to the request for comment. Of those 20:

- 6 agreed with the proposed definition of *limited assurance* and that they believe that defining the term will assist practitioners in planning and performing high-quality review engagements – without any additional comment. Denoted in yellow in agenda item 1B(1).

- 10 stated that they believe that defining *limited assurance* will assist practitioners in planning and performing high-quality review engagements but suggested revisions to the proposed definition. Denoted in green in agenda item 1B(1).

- 1 stated that they did not object to the proposed definition of *limited assurance* but felt that it is not necessary to include such a definition in AR-C section 90. Denoted in blue in agenda item 1B(1).

- 2 disagreed with including a definition of *limited assurance* in AR-C section 90 unless such definition was also included in AU-C section 930, *Interim Financial Information* and AT-C section 210, *Review Engagements*. Denoted in purple in agenda item 1B(1).

- 1 disagreed with the proposed definition of *limited assurance* and does not believe that defining the term will assist practitioners in planning and performing high-quality review engagements. Denoted in red in agenda item 1B(1).

In summary, 16 of the 20 commenters supported defining the term *limited assurance* and believe that such a defined term will assist practitioners in planning and performing high-quality review engagements.

The ARSC is asked to consider:

- Whether it is necessary to define *limited assurance* in AR-C section 90 as part of this project. Consider comments highlighted in blue, purple, and red in agenda item 1B(1).

- If the ARSC determines that it is appropriate to define *limited assurance* in AR-C section 90, consider whether revisions as suggested in comments highlighted in green in agenda item 1B(1) are appropriate.

Issue 2 **- Explicit requirements with respect to materiality**

Although 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 extant 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 extant 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 extant 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.

Additionally, in obtaining sufficient appropriate review evidence as a basis for the accountant's conclusion on the financial statements, the ED includes a proposal that the accountant be required to design and perform analytical procedures and inquires to address all material items in the financial statements, including disclosures. This is in addition to the requirement in paragraph .18 of extant AR-C section 90 for the accountant to focus analytical procedures and inquiries on areas where the accountant believes that there are increased risks of material misstatements.

The revisions to AR-C section 90 do not create any inconsistencies with the exposure draft of proposed SAS *Amendments to the Description of the Concept of Materiality* and proposed SSAE *Amendments to the Description of the Concept of Materiality*. However, staff will continue to monitor the ASB's project and will propose amendments to the proposed SSARS for consistency with the auditing literature.

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.

Of the 22 comment letters received on the ED, 19 provided specific responses to the request for comment. Of those 19:

- 10 agreed with 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 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. Denoted in yellow in agenda item 1B(2).

- 3 agreed with the proposed requirement to determine materiality but suggested revisions to or additional application guidance (one of the 3 disagreed with the proposed requirement to apply procedures to address all material items). Denoted in green in agenda item 1B(2).

- 1 agreed with the proposed requirements but was concerned about how the requirement may complicate communications to clients and documentation requirements. Denoted in blue in agenda item 1B(2).

- 6 disagreed with 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. Denoted in purple in agenda item 1B(2).

Note, one commenter (KPMG LLP) is included in two of the bullets above as they suggested additional application guidance on the requirement to determine materiality but also disagreed with the requirement to apply procedures to all material items in the financial statements.

In summary, all 19 commenters agreed with 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. 6 of the 19 respondents disagreed with 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 is asked to consider:

- Whether additional application guidance consistent with suggestions made by KPMG LLP (comment letter #11), the Technical Issues Committee (comment letter #13), and RSM US LLP (comment letter #14) should be included in the proposed revised AR-C section 90.

- Whether 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 is appropriate or whether AR-C section 90 should retain the concept of focusing the analytical procedures and inquiries in those areas where the accountant believes there are increased risks of material misstatements (often referred to as "risk awareness").

***Issue 3* – Ability to express an adverse conclusion**

The ED proposes to permit an accountant to issue an adverse conclusion on financial statements when the accountant is 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. ISRE 2400 (Revised) provides for the issuance of an adverse conclusion. However, unlike ISRE 2400 (Revised), AR-C section 90 would continue to preclude the issuance of a disclaimer (for example, as the result of a scope limitation).

To operationalize the proposed ability for the accountant to issue an adverse conclusion, the ED includes a proposal to include the following definition of the term *pervasive* in paragraph .05 of AR-C section 90:

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

The exposure draft of proposed Statement on Standards for Attestation Engagements *Revisions to Statement on Standards for Attestation Engagements No. 18,* Attestation Standards: Clarification and Recodification includes a proposal permitting a practitioner performing a review engagement on subject matter other than historical financial statements in accordance with AT-C section 210, *Review Engagements*, to be permitted to issue a report containing an adverse conclusion. The proposal to permit an adverse conclusion in an engagement performed in accordance with AT-C section 210 is based on the same reasons a report is proposed to be permitted for an engagement performed in accordance with AR-C section 90.

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.

Of the 22 comment letters received on the ED, 20 provided specific responses to the request for comment. Of those 20:

- 18 agreed with 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. Denoted in yellow in agenda item 1B(3).

- 2 disagreed with 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. Denoted in green in agenda item 1B(3).

The ARSC is asked to consider:

- Whether, pursuant to the suggestions of Illinois CPA Society (comment letter #9) and Grant Thornton (comment letter #19), 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.

- Whether illustrative review reports in which the accountant expresses an adverse conclusion should be included in AR-C section 90 or in a subsequent edition of the AICPA Guide, *Preparation, Compilation, and Review Engagements.*

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

The ED includes a proposal to revise paragraphs .14 and .17 of AR-C section 70 to require the accountant to inform management of its reasons for withdrawing when the accountant intends to withdraw from the engagement because

- the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that "no assurance is provided" on the financial statements.
- management fails to provide additional or corrected information when the accountant becomes aware that the records, documents, explanations, or other information, including significant judgments, used in the preparation of financial statements are incomplete, inaccurate, or otherwise unsatisfactory.

The requirements are consistent with the requirement in paragraph .16 of AR-C section 80 when the accountant withdraws from a compilation engagement. The associated application guidance from paragraphs .A22–.A23 of AR-C section 80 are proposed to be repeated as paragraphs .A21–.A22 of AR-C section 70.

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.

Of the 22 comment letters received on the ED, 16 provided specific responses to the request for comment. Of those 16:

- 12 agreed with the proposed revisions. Denoted in yellow in agenda item 1B(4).
- 1 agreed with the proposed revisions to the requirements but felt that the application guidance was excessive. Denoted in green in agenda item 1B(4).
- 2 agreed with the proposed revisions but proposed certain revisions. Denoted in blue in agenda item 1B(4).
- 1 disagreed with the proposed revisions and suggested that informing management for the reasons for withdrawal should be "an option or a best practice." Denoted in purple in agenda item 1B(4).

The ARSC is asked to consider:

- Whether to revise the proposed requirements and application pursuant to suggestions by CLA (comment letter #6) and Grant Thornton LLP (comment letter #19).

***Issue 5* – Professional skepticism**

The ED includes a proposal to explicitly require the accountant to plan and perform the review with professional skepticism. To operationalize the proposed requirement, the ED includes a proposal to revise paragraph .05 of extant AR-C section 90 to include the following definition:

> **Professional skepticism.** An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of review evidence.

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.

Of the 22 comment letters received on the ED, 19 provided specific responses to the request for comment. Of those 19:

- 15 agreed with the proposed revisions. Denoted in yellow in agenda item 1B(5).
- 2 agreed with the proposed revisions but requested revisions or additions to the application guidance. Denoted in green in agenda item 1B(5).
- 1 agreed with the proposed revisions but felt that the application guidance was excessive. Denoted in blue in agenda item 1B(5).

- 1 commenter believes that the proposed requirement is not sufficient. Denoted in purple in agenda item 1B(5).

The ARSC is asked to consider:

- Whether to revise the application guidance pursuant to suggestions by RSM US LLP (comment letter #14) and Grant Thornton LLP (comment letter #19).

***Issue 6* – Additional required inquiries of management**

The ED includes a proposal to 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 or may affect the entity's financial statements, including disclosures

b. material nonmonetary 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.

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.

Of the 22 comment letters received on the ED, 17 provided specific responses to the request for comment. None of those 17 commenters disagreed with the proposed inquiries. However:

- TIC (denoted in yellow in agenda item 1B(6)) suggested moving the proposed required inquiries with respect to related parties and going concern to the general list of inquiries. Grant Thornton LLP (denoted in green in agenda item 1B(6)) alternatively suggested deleting inquiries regarding going concern from the general listing as it is repetitive of the inquiries from the separate section on going concern and the separate section is consistent with the auditing standards.

- Grant Thornton LLP also suggest 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.

- RSM US LLP (denoted in blue in agenda item 1B(6)) suggested defining or providing guidance regarding the term "transactions for no consideration".

The ARSC is asked to consider:

- Whether to revise the proposed standard pursuant to comments submitted by TIC (comment letter #13), RSM US LLP (comment letter #14), and Grant Thornton LLP (comment letter #19).

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

The ED includes a proposal to 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, and

b. whether related parties could be involved.

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.

Of the 22 comment letters received on the ED, 18 provided specific responses to the request for comment. None of those 18 commenters disagreed with the proposed inquiries. However:

- TIC (denoted in yellow in agenda item 1B(7)) suggested combining the requirements with the general list of inquiries.
- RSM US LLP (denoted in green in agenda item 1B(7)) suggested defining the term "significant."
- KPMG LLP and Grant Thornton LLP (denoted in blue in agenda item 1B(7)) suggested including additional guidance from AU-C section 550, *Related Parties.*

The ARSC is asked to consider:

- Whether to revise the proposed standard pursuant to comments submitted by TIC (comment letter #13), RSM US LLP (comment letter #14), KPMG LLP (comment letter #11), and Grant Thornton LLP (comment letter #19).

Issue 8 **– Documentation**

The ED includes a proposal 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 .94*c* 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.

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.

Of the 22 comment letters received on the ED, 17 provided specific responses to the request for comment. Of those 17:

- 12 agreed with the proposed revisions. Denoted in yellow in agenda item 1B(8).

- 1 agreed with the proposed revisions but suggested revisions, including additional application guidance. Denoted in purple in agenda item 1B(8).

- 3 disagree with the proposed additional requirements. Denoted in green in agenda item 1B(8).

- 1 disagreed with the proposed required documentation in paragraphs .113 c and e of the proposed standard. Denoted in blue in agenda item 1B(8).

In summary, 13 of the 17 commenters supported the proposed additional documentation requirements.

The ARSC is asked to consider:

- Whether to retain the proposed additional required documentation after consideration of the concerns expressed in comments submitted by Illinois CPA Society (comment letter #9), Navolio & Tallman LLP (comment letter #18), Grant Thornton LLP (comment letter #19), TIC (comment letter #13), and RSM US LLP (comment letter #14).

***Issue 9* – Restatements of previously issued financial statements**

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. Although an accountant may include an emphasis-of-matter paragraph in this circumstance, AR-C section 90 does not include a comparable requirement to that in AU-C section 708.

ARSC discussed whether to propose to include reporting 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. ARSC did not come to a conclusion and requested feedback in the ED about whether respondents believe that such requirements would be in the public interest.

If such requirements and application guidance were included in AR-C section 90, such requirements and guidance may be as follows and would be consistent with paragraphs .13–.15 and .A12–.A14 of AU-C section 708.

Correction of a Material Misstatement in Previously Issued Financial Statements	**Correction of a Material Misstatement in Previously Issued Financial Statements (Ref: par. .89–.90)**
.89 The accountant should include an emphasis-of-matter paragraph in the accountant's review report when there are adjustments to correct a material misstatement in previously issued financial statements. The accountant should include this type of emphasis-of-matter paragraph in the accountant's review report when the related financial statements are restated to correct the prior material misstatement. The paragraph need not be repeated in subsequent periods. (Ref: par. .A132–.A133)	**.A132** A change from an accounting principle that is not in accordance with the applicable financial reporting framework to one that is in accordance with the applicable financial reporting framework is a correction of a misstatement. **.A133** Paragraphs .51–.52 of this section address the accountant's responsibilities when adjustments have been made to correct a material misstatement in previously issued financial statements.
.90 The emphasis-of-matter paragraph should include *a*. a statement that the previously issued financial statements have been restated for the correction of a material misstatement in the respective period and *b*. a reference to the entity's disclosure of the correction of the material misstatement. (Ref: par. .A134)	
.91 If the financial statement disclosures relating to the restatement to correct a material misstatement in previously issued financial statements are not adequate, the accountant should address the inadequacy of disclosure as described in paragraphs .66–.69.	**.A134** The following is an example of an emphasis-of-matter paragraph when there has been a correction of a material misstatement in previously issued financial statements: *Emphasis of Matter* As discussed in Note X to the financial statements, the 20X2 financial statements have been restated to correct a misstatement. Our conclusion is not modified with respect to this matter.

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.

Of the 22 comment letters received on the ED, 20 provided specific responses to the request for comment. None of those 20 commenters disagreed with the proposed inquiries. However:

- Grant Thornton (denoted in yellow in agenda item 1B(9)) suggested that the ASRC clarify that the proposed reporting requirements also apply to an accountant's review report on single-year financial statements. Further, Grant Thornton recommend that the ARSC consider adding a requirement to include a "consistency" other matter paragraph, similar to those paragraphs that appear in the Statements on Auditing Standards.

- Carr Riggs & Ingram LLP (denoted in green in agenda item 1B(9)) suggested that the proposed reporting requirement be included in AR-C section 80 for compilation engagements.

- KPMG LLP and Grant Thornton LLP (denoted in blue in agenda item 1B(7)) suggested including additional guidance from AU-C section 550, *Related Parties.*

The ARSC is asked to consider:
Whether to revise the proposed standard pursuant to comments submitted by Grant Thornton LLP (comment letter #19) and Carr Riggs & Ingram LLP (comment letter #3).

***Issue 10* – Proposed effective date**

The ED includes a proposes 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.

Some commenters noted that proposed paragraph .06 of AR-C section 90 indicates that the section would be effective for reviews of financial statements for periods ending on or after July 15, 2021. Staff will correct the error in the subsequent draft of the proposed revised standard

As part of the exposure draft, the ARSC asked commenters whether they were supportive of the proposed effective date.

Of the 22 comment letters received on the ED, 19 provided specific responses to the request for comment. Of those 19:

- 14 agreed with the proposed effective date. Denoted in yellow in agenda item 1B(10).

- 2 disagreed with permitting early implementation. Denoted in green in agenda item 1B(10).

- 3 disagreed with the proposed effective date and suggested an effective date of December 31, 2021 or December 31, 2022. Denoted in blue in agenda item 1B(10).

The ARSC is asked to consider:

- Whether to retain the proposed effective date or revise after consideration of the concerns expressed in comments submitted by New Jersey Society of CPAs (comment letter #4), Navolio & Tallman LLP (comment letter #18), the New York State Society of CPAs (comment letter #5), Baker Tilly Virchow Krause, LLP (comment letter #16), and Grant Thornton LLP (comment letter #19).

***Issue 10* – Paragraph specific and overall comments**

Paragraph specific comments submitted by commenters are summarized in agenda item 1B(11). Staff will consider those comments as the revised draft of the proposed standard is prepared.

In addition, Deloitte & Touche LLP (comment letter #21) provided the following overall comment:

> While we support convergence and minimizing differences between AR-C 90 of the proposed ED and ISRE 2400 (Revised), we believe certain proposed amendments to AR-C 90 of the proposed ED may result in inconsistencies as it relates to the suite of professional standards pertaining to review engagements performed within the United States. D&T believes that having defined terms (or no definitions as the case may be) and performance requirements that are similarly aligned within our jurisdiction is important for the consistent execution of all review engagements of historical financial information. This will alleviate confusion for accountants when they are also performing review procedures in accordance with the Statement on Auditing Standard (SAS) No. 122, *Statements on Auditing Standards: Clarification and Recodification, as amended*, specifically AU-C section 930, *Interim Financial Information* (AU-C 930), and Statements on Standards for Attestation Engagements (SSAE) No, 18, *Attestation Standards: Clarification and Recodification*, specifically section 210, *Review Engagements* (AT-C 210).
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> Further, there are a number of proposals issued by both the Auditing Standards Board (ASB) and ARSC that are currently being exposed for public comments, including:
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> - Proposed SSAE, *Amendments to the Description of the Concept of Materiality*, which includes amendments to AT-C 210.
> - Proposed SSAE, *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification*, which includes amendments to AT-C 210.
> - Proposed SAS, *Amendments to Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS no. 134*, which addresses special purpose frameworks.
> - Proposed SAS, *Audit Evidence*, which may affect more broadly how the profession evaluates information obtained to be used as audit evidence.
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> 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.

The ARSC is asked to consider:

- Whether there are any additional issues that should be considered as revisions are made to the proposed standard.

Next Steps

It is anticipated that a revised standard will be presented to the ARSC at its meeting in January 2020. At that meeting, the ARSC may be requested to vote to issue the proposed standard as a final SSARS.

Agenda Items Presented:

Agenda item 1A	Exposure Draft proposed SSARS, *Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks*
Agenda item 1B(1)	Summary of responses to specific request to comment regarding proposed definition of *limited assurance*.
Agenda item 1B(2)	Summary of responses to specific request to comment regarding proposed explicit requirements with respect to materiality.
Agenda item 1B(3)	Summary of responses to specific request to comment regarding the ability to express an adverse conclusion.
Agenda item 1B(4)	Summary of responses to specific request to comment regarding requiring the accountant to inform management of the reasons for withdrawal in a preparation engagement.
Agenda item 1B(5)	Summary of responses to specific request to comment regarding explicit professional skepticism requirement.
Agenda item 1B(6)	Summary of responses to specific request to comment regarding additional inquiries of management.
Agenda item 1B(7)	Summary of responses to specific request to comment regarding remaining alert for related parties and related party transactions.
Agenda item 1B(8)	Summary of responses to specific request to comment regarding proposed additional documentation requirements.
Agenda item 1B(9)	Summary of responses to specific request for feedback regarding reporting when there are restatements of previously issued financial statements.
Agenda item 1B(10)	Summary of responses to specific request for feedback regarding the proposed effective date.
Agenda item 1B(11)	Summary of paragraph specific responses.