



Agenda Item 1B (3)

Q7 - Responses to Adverse Conclusion Proposal

Hierarchical Name	Respondent	Response	Comments
Nodes\\Q07	02 - Alpresh Shah	<p>This proposal of adverse conclusion or qualified conclusion makes sense regardless of the review engagement or the audit engagement. When the accountants provide some sort of assurance on the engagement, this consideration is absolutely imperative and useful for the reader's attention.</p> <p>I agree with clarifying the definition of "Basis for Qualified Conclusion: which means the effects of the matter or matters are material but not pervasive to the financial statements" vs. "Basis for Adverse Conclusion: which means the effects of the matter or matters are both material and pervasive to the financial statements". This clarification makes it clear for accountants how to conclude in the accountant's review report giving consideration to appropriate facts and circumstances.</p>	
Nodes\\Q07	03 - Carr Riggs	<p>CRI agrees with the proposal to permit the accountant to express an adverse conclusion when determination is made that the financial statements are materially misstated and</p>	

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		<p>the effects of the matters are both material and pervasive to the financial statements. Also, based on our review of the proposed revisions to AT-C section 210 it appears the reasons for permitting the issuance of an adverse conclusion are consistent.</p>	
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Nodes\\Q07	04 - NJCPA	<p>The Group agrees with the proposal to permit the accountant to express an adverse conclusion for an engagement performed in accordance with AR-C section 90. However, with the availability of an adverse conclusion in a review engagement, the Group would appreciate additional guidance to understand if an adverse conclusion report could be issued with respect to the Explanatory Material in item A98, similar to an audit report with a qualification or disclaimer of opinion in an engagement with a scope limitation.</p>	
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Nodes\\Q07	05 - NYSSCPA	<p>We agree with the proposal to permit the accountant to express an adverse conclusion in a review of financial statements when it is determined that the financial statements are materiality misstated and that the effects are both material and pervasiveness based on the proposed explicit materiality requirement. We agree that the AR-C section 90 proposal to permit the accountant to express an adverse conclusion is consistent with an adverse conclusion described in Statement on Standards for Attestation Engagements, AT-C section 210, Review Engagements.</p>	
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Nodes\\Q07	08 - Michigan OAG	<p>We strongly support the proposal to permit the accountant to express an adverse conclusion in an AR-C section 90 engagement. As a governmental auditor, we are often not allowed the option to withdraw from an engagement. The ability to provide an adverse conclusion would allow users of the financial information to understand why the associated statements are not in accordance with the stated basis of accounting. We consider the reasons to permit an adverse conclusion in an AR-C section 90 engagement as consistent with the reasons in AT-C section 210.</p>	
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Nodes\\Q07	10 - Crowe LLP	<p>We agree it is appropriate to include the ability for the accountant to express an adverse conclusion for a review engagement when identified errors are both material and pervasive to the financial statements. While the extant standard allows for reporting of significant limitations of the financial statements on a review engagement, which refers to the significance and pervasiveness of the reported matters, we don't believe this was used often in practice. Further, this did not specifically change the accountant's conclusion. We believe this is the most meaningful change in practice within the proposed standard, and it will have a significant impact on entities and financial statement users who are accustomed only to the reporting of known departures.</p>	
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Nodes\\Q07	12 - NSAA	<p>We strongly support the proposal to permit the accountant to express an adverse conclusion in an AR-C section 90 engagement. As governmental auditors, we are often not allowed the option to withdraw from an engagement. The ability to provide an adverse conclusion would allow users of the financial information to understand why the associated statements are not in accordance with the stated basis of accounting.</p> <p>We consider the reasons to permit an adverse conclusion in an AR-C section 90 engagement as consistent with the reasons in AT-C section 210.</p>	
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Nodes\\Q07	13 - TIC	<p>TIC is in agreement with the proposal to permit the accountant to express an adverse conclusion. TIC believes the reasons to permit an adverse conclusion appear consistent with AT-C 210.</p>	
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Nodes\\Q07	14 - RSM US LLP	<p>We agree with adding to AR-C section 90 the ability for the accountant to express an adverse conclusion when they determine or are 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.</p> <p>We believe 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</p>	
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Nodes\\Q07	18 - Navolio Tallman	<p>We agree with the proposal to permit the accountant to express an adverse conclusion</p>	
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Nodes\\Q07	20 - VSCPA	and believe that the reasons are consistent with the reasons to permit an adverse conclusion in accordance with AT-C section	We agree with the proposal to permit the accountant to express an adverse conclusion when misstatements are material and pervasive to the financial statements.
Nodes\\Q07	21 - Deloitte	D&T agrees with the proposal to permit the accountant to express an adverse conclusion for an engagement performed in accordance with AR-C 90 of the proposed ED when the accountant 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. Similar to the comments above, however, in the interest of alignment, D&T suggests related standard setting activities first conclude in certain areas, specifically related to proposed SSAE, Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification, which includes amendments to AT-C 210 on expressing adverse conclusions.	
Nodes\\Q07	22 - FICPA	The Committee agrees with the proposal to permit the accountant to express an adverse conclusion for a limited assurance engagement performed in accordance with AR-C section 90 if he/she determines that the financial statements are materially misstated and the effects of the matter(s) are both material and	

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<p>Nodes\\Q07\Q07 - Agree - if not included, additional revisions needed</p>	<p>16 - Baker Tilly</p>	<p>pervasive to the financial statements. We also believe the reasons to permit an adverse opinion seem to be consistent with those in AT-C</p> <p>As we believe that it is in the public interest and would additionally eliminate what we believe to be an unnecessary difference between SSARS and ISRE 2400, we support the proposal to permit accountants to express an adverse conclusion 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. However, if the Committee decides against allowing accountants to express an adverse conclusion, we believe that the application guidance in paragraph .A107 should be removed from SSARS. Paragraph .59 of SSARS currently requires withdrawal in this situation (i.e. “if the accountant believes that modification of the standard report is not adequate to indicate the deficiencies in the financial statements as a whole”). Paragraph .A107 suggests that adding a “limitations of the financial statements” paragraph to the accountant’s report could be an acceptable alternative to withdrawal in this situation, and in our opinion, undermines the requirement in paragraph .59. The example “limitations of the financial statements paragraph” in paragraph .A107 states the following:</p>	
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		<p>“Because of the significance and pervasiveness of the matters described in the Known Departures From Accounting Principles Generally Accepted in the United States of America paragraphs, we cannot assess their impact on the financial statements. Users of the accompanying financial statements should recognize that they might reach different conclusions about the company’s financial position, results of operations, and cash flows if they had access to revised financial statements prepared in accordance with accounting principles generally accepted in the United States of America.”</p>	
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We believe that including such a paragraph in the accountant’s report is tantamount to expressing an adverse conclusion without actually requiring the accountant to state that he or she is expressing an adverse conclusion on the financial statements. We do not believe that allowing this is in the public interest, and therefore, we believe that paragraph .A107 should be removed from SSARS.

Further, we believe that 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.

Nodes\\Q07\Q07 - Agree - illustrative reports needed	07 - NASBA		
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We support permitting the accountant to express an adverse conclusion for an engagement performed in accordance with AR-C section 90, but we would advise ARSC

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		<p>to provide illustrations of an adverse opinion and application guidance, to help ensure that the level of assurance being provided to the portion of the financial statements not covered by the adverse conclusion is not misinterpreted by the users of the financial statements.</p>	
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We believe 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. We agree with ARSC that “it was not in the public interest to prohibit the expression of an adverse conclusion when the accountant is aware that the financial statements are materially and pervasively misstated.”

Nodes\\Q07\Q07 - Agree - illustrative reports needed	10 - Crowe LLP		
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To further support users with the new reporting requirements in AR-C 90, we recommend that you provide a review report illustration with an adverse conclusion.

Nodes\\Q07\Q07 - Agree but concerns with respect to regulatory basis of accounting	17 - Commonwealth VA		
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For the Request for Comment 7, we have concerns regarding the application of an adverse or qualified conclusion for review engagements where the departure from Generally Accepted Accounting Principles (GAAP) is a result of incompleteness of certain required information, such as management discussion and analysis, required supplementary information, and footnotes. When there is one specific intended regulatory user of a review report and that user is satisfied with the omission of certain information required by GAAP,

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we believe it is important for the review standards to provide an avenue for the accountant to provide limited assurance over the financial statement(s) provided. From the proposed guidance, however, it is not clear to us the extent to which incomplete GAAP statements may result in an unmodified review conclusion.

AR-C Section 90, Paragraph .01 and its related application material provides that the accountant may perform a review engagement over historical financial information or single financial statements. AR-C Section 60, Paragraph .A14 provides that, "Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on a framework promulgated by a designated accounting standard setter, all the requirements of that framework. Such frameworks are regulatory bases of accounting, as described in paragraph .07." These paragraphs indicate to us that circumstances exist when an unmodified conclusion may result from a review of incomplete general purpose GAAP statements if the regulatory body's reporting expectations are captured as a special purpose framework.

Despite the Committee's presumed efforts to allow these avenues for limited assurance over

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		<p>incomplete GAAP financial statements, we believe the significant restrictions on allowable presentations of these statements and references to GAAP discussed in AR-C Section 90, Paragraph 74 and its related application material may make it difficult for an accountant to provide an unmodified conclusion. If the intention of the Committee is to allow for unmodified review conclusions of incomplete GAAP statements for regulatory bodies who are satisfied with the incomplete information, we believe that intention should be more clearly conveyed in the proposed guidance.</p> <p>Additionally, we suggest an illustration be included to address how a review report may refer to a regulatory special purpose framework when the regulatory body has not established a formal written framework for incomplete</p>	
<p>Nodes\\Q07\Q07 - Agree with recommended revision to requirement</p>	<p>06 - CLA</p>	<p>We believe that adverse conclusions would be rare in practice. We are not opposed to permitting accountants 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. In addition, we recommend adding that “the accountants should consider the provisions for withdrawing from the engagement.”</p>	

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Nodes\\Q07\Q07 - Disagree; if retained, revision to requirement	09 - ICPAS	<p>The Committee does not support 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 for the following reasons:</p> <p>The practitioners from small, medium, and large firms that represent a significant portion of the Committee membership cannot foresee a realistic instance when they or the firms they are associated with will actually issue an adverse conclusion in connection with a review engagement. Adverse audit opinions are rarely seen in practice. Reviews are primarily required by lenders and required by positive covenants that borrowers need to maintain to be in compliance with loan agreements. Such covenants usually require financial statements be maintained in accordance with GAAP. Companies are not likely to provide the lenders with financial statements that include an adverse conclusion and need to explain why their reviewed financial statements are not in accordance with GAAP.</p>	
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		Practitioners will be required to amend engagement letters to cover the possibility of completing the engagement by issuing an adverse conclusion. Professional liability may increase as practitioners may	
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		have to defend why they chose to withdraw rather than complete the review engagement and issue an adverse conclusion.	
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		However, should the ARSC decide to proceed with this option, we recommend the requirements in paragraph 71 related to the Basis for Adverse Conclusion paragraph 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.	
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Nodes\\Q07\Q07 - Disagree; if retained, revision to requirement	19 - Grant Thornton	In principle, we do not support 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	
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are both material and pervasive to the financial statements. However, if the ARSC proceeds with this approach, we recommend that the Committee enhance the requirements in paragraph 71 related to the Basis for Adverse Conclusion paragraph so that the accountant is required to withdraw if the modification of the report is not adequate to describe the effects on the financial statements as a whole (paragraph 59 in extant AR-C section 90). We believe this is of critical importance to users of the financial statements because the accountant's review procedures may not have identified all departures from the applicable reporting framework and the related effects on the financial statements and those identified may not be able to be described sufficiently. Allowing for a report to be issued in those circumstances may be misleading to the users of the financial statements. As a result, we also do not support revising AT-C 210 to