



**ACCOUNTING AND REVIEW SERVICES COMMITTEE (ARSC)
Meeting Highlights
January 8-9, 2020
San Diego, CA**

MEETING ATTENDANCE

Committee members present:

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

AICPA staff present:

Bob Dohrer – Chief Auditor
Bob Durak - Director, Audit & Accounting Technical Services
Mike Glynn – Senior Manager, Audit & Attest Standards; Staff Liaison – Accounting and Review Services Committee
Michael Jones – Assistant General Counsel

AICPA staff observing via telephone:

Kristy Illuzzi - Staff Liaison to the PCPS Technical Issues Committee

Observers:

Laura Billingsley: Executive Editor – A&A, Thomson Reuters
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
Joseph Wolfe - Risk Management Consultant, Aon Affinity – Professional Firms

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met January 8-9, 2020 in San Diego, CA. The issues discussed, and actions taken were as follows:

Welcome and overview of meeting objectives

Chair’s Report

D. Ard welcomed the attendees specifically T. Prothro and M. Westervelt as the meeting represents their initial in-person ARSC meeting.

D. Ard stated that SSAE 19, *Agreed-Upon Procedures* was issued in December 2019 and thanked the ARSC for its efforts with respect to the development and issuance of the standard. Various ARSC members stated that they have received questions from practitioners with respect to the new standard and that the reaction to the new standard is overwhelmingly positive.

D. Verity and B. Nunnally stated that there was nothing to report with respect to the activities of the Assurance Research Advisory Group.

Director's Report

B. Dohrer presented the Director's Report and reminded the ARSC that the ASB is meeting January 13-16, 2020 at the same location as the ARSC's January 2020 meeting. B. Dohrer provided an overview of the ASB's agenda for that meeting.

The ASB will continue its discussions of proposed revisions to AT-C sections 205 and 210. The ASB will consider a proposal that would enable practitioners to perform direct examination and review attestation engagements by introducing the option in AT-C section 105, *Concepts Common to All Attestation Engagements*. AT-C sections 205 and 210 would substantially retain their current construct and be geared toward traditional assertion-based engagements. The significant drafting of the revised AT-C sections 205 and 210 would occur after the ASB meeting and would be expected to be presented to the ASB at its meeting in April 2020. D. Ard and D. Johnson are members of the Attestation Standards Task Force.

The ASB will also consider proposed revisions to AU-C section 210, *Terms of Engagement* to require communication to successor auditors if the predecessor auditor withdraws from an engagement, decides not to stand for reappointment, or is terminated, and noncompliance with laws or regulation has been identified or is suspected.

The ASB will also discuss revisions to the proposed SAS, *Audit Evidence* after considering the comment letters received in connection with the exposure draft.

The ASB will also discuss comments on the exposure draft of the proposed SAS *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134* and is expected to vote to issue revised AU-C sections 800, 805, and 810 as final standards. The ASB has received significant comments on the complexities with respect to the proposed reporting on financial statements prepared in accordance with the AICPA's Financial Reporting Framework for Small and Medium-Sized Entities (FRF-SME). The issue of compliance frameworks will continue to be considered but will not be part of the final SAS.

Approval of highlights from the October 23, 2019 meeting

V. Pitkin made a motion that the ARSC approve the highlights of the October 23, 2019 meeting as presented. T. Prothro seconded the motion and the ARSC unanimously voted to approve the highlights.

Agenda item #1 – Withdrawal of Selected Procedures Exposure Draft

M. Glynn stated that the objective was to vote to withdraw the exposure draft of the proposed SSAE, *Selected Procedures*. B. Nunnally made a motion to withdraw the exposure draft which was seconded by V. Pitkin and the ARSC unanimously approved.

Agenda item #2 – Proposed Materiality/Adverse Conclusions SSARSs

M. Glynn stated that the objective was to vote to issue the proposed SSARS, *Materiality in a Review of Financial Statements and Adverse Conclusions* as a final SSARS.

The ARSC discussed the draft standard and directed that the following edits be made:

- Revise paragraph .07 of AR-C section 60 so that the examples of a *special purpose framework* revert to how such examples are presented in extant. That would result in those examples being part of the definition as opposed to being in the application material. Such treatment would be consistent with how the ASB plans to address such examples in the proposed SAS that revises the AU-C section 800 series. The corresponding application paragraphs should also be consistent with the corresponding paragraphs in the draft of the proposed revised AU-C section 800 series.
- Footnote 1 to AR-C section 90 should be revised so that the reference to FASB *Accounting Standards Codification* (ASC) 205-40-50-1 does not refer to such content as “pending.”
- The reference to appendix B, "Unusual or Complex Situations to Be Considered by the Accountant When Performing Inquiry Procedures in a Review of Financial Statements" in paragraph .A45 of extant AR-C section 90 should be replaced with the actual examples and appendix B should be deleted. In addition, “correction of an error” should be included in the list of examples and any examples that are specifically listed in the corresponding requirement paragraph should not be retained.
- An application paragraph should hang off paragraph .68 that makes clear that the accountant may withdraw from the review engagement instead of issuing a qualified or adverse conclusion. The ARSC directed that such application paragraph read as follows:

.A98 Unless prohibited by law or regulation, the accountant may determine it appropriate to withdraw from the engagement when the accountant has determined, based on the procedures performed and the review evidence obtained, that the financial statements are materially misstated.

- Proposed paragraph .86 of AR-C section 90 should be revised to not refer to required geography of an emphasis-of-matter paragraph and include other revisions to read as follows:

~~53-86~~ When the accountant includes an emphasis-of-matter paragraph in the accountant's review report, the accountant should ***do the following***:

- ~~a.~~ ~~include it immediately after the accountant's conclusion paragraph in the accountant's review report,~~
- ~~b.~~ ***Include the paragraph within a separate section of the accountant's report with use—the heading "Emphasis of a Matter" or other appropriate heading, (Ref: par. ~~A98A130-A131~~)***
- ~~eb.~~ ***Include*** in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. ***The paragraph should refer only to information presented or disclosed in the financial statements. and***
- ~~dc.~~ indicate that the accountant's conclusion is not modified with respect to the matter emphasized. (Ref: par. ~~A99A132~~)

- With respect to the corresponding application guidance related to the preceding requirement paragraph, the ARSC directed that an application paragraph be included as follows:

.A131 The accountant may add further context to the heading "Emphasis of Matter" (for example, "Emphasis of Matter — Subsequent Event") to further describe the nature of the matter addressed by the emphasis-of-matter paragraph.

- Proposed paragraph .A131 in the draft standard would be renumbered to .A132 and should be revised to read as follows:

~~.A99~~-A132 The inclusion of an emphasis-of-matter paragraph in the accountant's review report does not affect the accountant's conclusion. An emphasis-of-matter paragraph is not a substitute for ***the following***:

- ***A modified conclusion in accordance with paragraphs .66 - .71 when required by the circumstances of a specific review engagement***
- ~~disclosures~~ ***Disclosures*** in the financial statements that the applicable financial reporting framework requires management to make.

- ***Reporting in accordance with paragraphs .98 - .100 when, after considering identified 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, in which case the accountant is required to include a separate section in the accountant's report***
- The geography of an other-matter paragraph in paragraph .54 of extant AR-C section 90 should not be retained. The ARSC directed that the requirement be revised as follows:

~~.54~~-87 If the accountant considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the accountant's professional judgment, is relevant to the users' understanding of the review, the accountant's responsibilities, or the accountant's review report, the accountant should ~~do so in~~ ***include an other-matter*** paragraph in the accountant's review report.

.88 When the accountant includes an other-matter paragraph in the accountant's review report, the accountant should include the paragraph within a separate section with the heading "Other Matter" or other appropriate heading. ~~The accountant should include this paragraph immediately after the accountant's conclusion paragraph and any emphasis of matter paragraph. (Ref: par. .A95A127, .A98A130, and .A100A133-.A102A135)~~

After discussion, D. Verity made a motion to ballot to issue the proposed SSARS as a final standard which was seconded by V. Pitkin and the ARSC unanimously approved.

The ARSC discussed the timing of the proposed SSARS and directed that it be issued as soon as possible.

Agenda item #3 – 2020 Preparation, Compilation, and Review Engagements Guide

M. Glynn stated that the objective was to discuss the development of the 2020 *Preparation, Compilation, and Review Engagements Guide*. Mr. Glynn stated that the requirements and guidance in SSARS 25 will be included in the Guide as will be the pre-SSARS 25 requirements and guidance. The SSARS 25 requirements will be marked to indicate that such requirements are not yet required to be implemented.

M. Glynn stated that the 2020 Guide will be developed during the first and second quarters of 2020 and will be expected to be provided to M. Glynn for initial review in early June 2020. The expectation is that M. Glynn will provide the draft to the ARSC and B. Dohrer for review during June 2020 with a comment deadline of mid-July 2020. The Guide would be issued in August 2020.

In addition to the incorporation of SSARS 25, the ARSC also discussed whether there was other potential guidance to be considered for inclusion in the 2020 Guide. V. Pitkin stated that practitioners would benefit if additional guidance was provided regarding dealing with going concern issues in compilation engagements, particularly when all disclosures have been omitted from the financial statements. Such additional guidance could interpret revised paragraph .26 of AR-C section 80 (revised by SSARS 25) which reads 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~~A20)

V. Pitkin believes that practitioners would benefit from guidance as to whether and when omission of a going concern disclosure that would have been included had full disclosure financial statements been presented would result in misleading financial statements and how the practitioner may address the issue with the client or in the compilation report.

Potential Projects

The ARSC discussed potential projects/issues for discussion at its next meeting and moving forward. The ARSC stated that it would continue to monitor the ASB's consideration of proposed revisions to AU-C section 210, *Terms of Engagement* to require communication to successor auditors if the predecessor auditor withdraws from an engagement, decides not to stand for reappointment, or is terminated, and noncompliance with laws or regulation (NOCLAR) has been identified or is suspected. Recognizing that AR-C section 90 does not require a predecessor/successor communication as part of accepting a review engagement, the ARSC may consider ways in which to ensure that knowledge is not lost when an accountant is terminated or withdraws from a review engagement due to fraud or NOCLAR including, but not limited to, requiring predecessor/successor communication as part of accepting an initial review engagement. The ARSC will consider obtaining feedback from interested parties with respect to such a potential requirement prior to exposure of proposed revisions. The ARSC could broaden the "ask" of potential respondents by asking for feedback with respect to reviewing opening balances in an initial review engagement. The ARSC discussed potentially developing an invitation to comment (ITC) and/or polling participants at the ENGAGE conference.

The ARSC will also consider potential revisions to SSARS with respect to reporting on financial statements prepared in accordance with a special purpose framework as well as the concept of compliance frameworks.

Wrap-up

The ARSC discussed potentially meeting at the AICPA's ENGAGE conference to be held June 8-11, 2020 in Las Vegas. Currently the Technical Issues Committee plans to meet on the afternoon of Wednesday, June 10 at ENGAGE and the ARSC could take advantage of that to conduct a liaison meeting with TIC. After discussion, the ARSC determined to meet Thursday, June 11, 2020 at the AICPA's ENGAGE conference in Las Vegas.

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