



Agenda Item 2

Issues Paper: Proposed Materiality/Adverse Conclusions SSARS

Objective of Agenda Item

To vote to issue the proposed SSARS, *Materiality in a Review of Financial Statements and Adverse Conclusions* as a final standard.

Background

The exposure draft of the proposed standard 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.

At its meeting in October 2019, the ARSC considered the 22 comment letters received on the exposure draft and provided additional feedback for revisions to the draft standard.

Issues For ARSC Consideration

M. Glynn will use Agenda item 2A to lead the discussion of the proposed standard at the ARSC meeting. The following is intended to provide additional information with respect to certain of the proposed revisions

Issue #1 – Explicit requirements with respect to materiality

Certain revisions are proposed to paragraphs .A31 - .A35 of proposed revised AR-C section 90 (see pages 50-52 of agenda item 2A). Those proposed revisions are for consistency with Statement on Auditing Standards No. 138, *Amendments to the Description of Materiality*. SAS 138 is available at:

<https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/sas-138.pdf>

To address the ARSC directive to include guidance stating that, in addition to quantitative factors, the accountant may need to consider qualitative factors, changes were made to paragraph .A31 and paragraph .A41 was added (see page 54 of Agenda item 2A).

Issue #2 – Ability to express an adverse conclusion

An illustrative report including an adverse conclusion is presented on pages 157-159 of agenda item 2A).

At the ARSC meeting in October 2020, a suggestion was made that additional application could be included regarding the accountant's consideration of withdrawal instead of the issuance of an adverse conclusion. Agenda item 2A does not include such guidance as the accountant is generally not prohibited from withdrawing from any review engagement. However, the ARSC is asked whether application guidance (hanging off paragraph .68b – see page 91 of agenda item 2A) should be included such as:

.AX Unless prohibited by law or regulation or is otherwise not practical or possible, the accountant may determine it appropriate to withdraw from the engagement when the effects of the matter or matters giving rise to the modification are both material and pervasive to the financial statements.

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Issue #3 – Implications for the accountant’s review report when substantial doubt exists about the entity’s ability to continue as a going concern

Certain revisions are proposed to paragraphs .97-.98 and .A147 - .A152 of proposed revised AR-C section 90 (see pages 121-126 of agenda item 2A). Those proposed revisions are for consistency with Statement on Auditing Standards No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. SAS 134 is available at:

<https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/sas-134.pdf> (note, the revisions to AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern* are on pages 158 – 166 of SAS 134).

Overall Action Requested of ARSC

The ARSC is asked to vote to ballot to issue the proposed SSARS, *Materiality in a Review of Financial Statements and Adverse Conclusions* as a final standard.

Agenda Items Presented:

Agenda item 2A Proposed SSARS, *Materiality in a Review of Financial Statements and Adverse Conclusions* – redline to show changes from exposure draft

Agenda item 2B Proposed SSARS, *Materiality in a Review of Financial Statements and Adverse Conclusions* – clean

M. Glynn will use Agenda item 2A to lead the discussion of the proposed standard at the ARSC meeting.