



**ACCOUNTING AND REVIEW SERVICES COMMITTEE  
(ARSC)**

**Meeting Highlights  
November 2, 2020  
Videoconference**

**MEETING ATTENDANCE**

ARSC Members

Denny Ard, *Chair*  
Ignatius Jackson  
Karen Kerber  
Bruce Nunnally  
Victoria Pitkin  
Thomas Prothro  
Michael Westervelt

AICPA Staff who were granted the floor during the meeting

Mike Glynn, *Senior Technical Manager—A&A Standards*  
Kristy Illuzzi, *Staff Liaison to the PCPS Technical Issues Committee*  
Michael A. Jones, *Asst. General Counsel—General Counsel & Trial Board*

Others who were granted the floor during the meeting

Tracy Harding, *Chair – Auditing Standards Board (ASB)*  
Duncan Will, *Loss Prevention Manager - Accounting & Auditing Loss  
Prevention Specialist, Camico Insurance*  
Joseph Wolfe, *Risk Management Consultant - Professional Firms, Aon  
Insurance*

Note: The meeting was open to observers who were not provided the privilege of the floor, whose names are not listed.

**Chair’s Report and ASB Update**

Mr. Ard welcomed Tracy Harding, Chair of the ASB, to the meeting.

Mr. Harding provided a summary of the ASB’s October 19-22, 2020 meeting. Mr. Harding stated that the ASB voted to issue a proposed revised AT-C section 210, *Review Engagements* as Statement on Attestation Engagements (SSAE) No. 22. The final standard is expected to be issued in December 2020. Mr. Harding stated that the issuance of SSAE No. 22 completes the third of a four-phase project to revise the attestation standards. The first and second phases were completed with the issuance of SSAE No. 19, *Agreed-Upon Procedures Engagements* and SSAE No. 21, *Direct Examination Engagements*, respectively. The impetus behind the revisions to the attestation standards is to address and anticipate increasing demand for entity’s reporting information beyond historical financial statements and for practitioners to report thereon. The revisions to AT-C section 210 include changes for consistency with revisions made to AT-C section 205 from SSAE No. 21 and to permit the expression of an adverse review conclusion consistent with Statement on Standards for Accounting and Review Services No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*. The fourth phase of the project is to consider the concept of a direct review engagement. In response to Mr. Harding’s request for ARSC thoughts on the potential for a direct review engagement, Mr. Ard stated that he believes that there would be demand for a direct

review service. The ARSC collectively added that, because SSAE No. 22 makes clear that an attestation review can incorporate procedures other than analytical procedures and requires a summary of procedures performed to obtain limited assurance in the practitioner's review engagement, there is no reason that a direct review should be prohibited.

Mr. Harding also reported that the ASB voted to expose a proposed standard on specialists for public comment. The ASB had off-ramped certain items from evidence and estimates projects to update/add specificity to guidance in these areas. The exposure draft also includes PCAOB guidance as an appendix to AU-C section 500, *Audit Evidence*.

The ASB also discussed a project on quality management standards and the International Audit & Assurance Standards Board's group audit exposure draft.

Mr. Harding reported that the ASB did not vote to expose the proposed revisions to AU-C section 210, *Terms of Engagement* regarding communications between predecessor and successor auditors regarding fraud and noncompliance with laws and regulations. The National Association of State Boards of Accountancy (NASBA) requested that the ASB defer its vote to expose the proposed revisions due to concerns they have about the exposure draft as drafted. Mr. Harding and various AICPA representatives (including Mr. Glynn) are having discussions with NASBA and hope to be able to vote to expose a proposed standard at an upcoming meeting in January 2021.

With respect to other activities, Mr. Ard stated that he and Mr. Glynn participated in a virtual meeting of the Chairs and staff liaisons of various AICPA committees on September 30, 2020. Mr. Ard stated that the meeting was very productive.

Mr. Prothro made a motion, which was seconded by Ms. Pitkin to approve the highlights of the June 2020 ARSC meeting. The highlights were unanimously approved as presented.

Significant issues discussed during the ARSC meeting included the following:

#### **Need for Education on Attestation Standards**

Mr. Nunnally stated that he perceives a lack understanding of the attestation standards – especially agreed-upon procedures. After discussion, Mr. Glynn stated that he would suggest to the staff of the Center for Plain English Accounting (CPEA) that the topic would be good subject matter for a CPEA webcast or other learning. The webcast could feature a walkthrough of SSAE Nos. 19, 21, and 22 and a panel that discusses the engagement possibilities. The topic is timely as SSAE 19 allows for early implementation and many practitioners are taking advantage of the flexibility afforded to practitioners performing agreed-upon procedures engagements.

## **SSARS 25 Adverse Conclusion Report Illustration**

Mr. Glynn stated that, in voting to issue SSAE No. 22, the ASB was concerned with issuing a report that includes a review conclusion that reads significantly the same as an adverse examination opinion without having performed an examination. Mr. Glynn reminded the ARSC that that is the reason why the ARSC initially prohibited the issuance of an adverse review conclusion when SSARS No. 1 was issued in December 1978 and retained that prohibition until the issuance of SSARS No. 25 in February 2020.

To address, the ASB directed that the illustrative adverse report include an additional sentence at the end of the conclusion (the Board did not direct that there be a corresponding requirement thus the brackets to show that it is optional language):

Based on our review, because of the significance of the matter described in the preceding paragraph, [*identify the subject matter, for example, the schedule of investment returns*] is not in accordance with [*identify the criteria, for example, the ABC criteria set forth in Note 1*]. [***Had we been engaged to perform an examination, other matters might have come to our attention.***]

Mr. Glynn proposed, for consistency, that the ARSC include the same language in the illustrative review reports in AR-C section 90 and the Guide, *Preparation, Compilation, and Review Engagements*. The Adverse Conclusion section of the illustrative report would read as follows (proposed new language is in ***boldface italics***):

### ***Adverse Conclusion***

Based on my (our) review, due to the significance of the matter described in the Basis for Adverse Conclusion paragraph, the financial statements are not in accordance with accounting principles generally accepted in the United States of America.]. [***Had we been engaged to perform an audit, other matters might have come to our attention.***]

After discussion, the ARSC unanimously agreed that the illustrative reports should be revised as suggested.

## **Improving the Quality of SSARSs Engagements**

The ARSC discussed specific practice issues identified through the peer review process with respect to SSARSs engagements and considered vehicles for communicating best practices and guidance to practitioners.

### *Issue #1 – Failure to obtain an engagement letter or a failure to include all required elements in the engagement letter*

Ms. Kerber stated that frequently engagement letters are not obtained when a practitioner specializes in tax and performs a review, compilation, or financial statement preparation engagement. After discussion, the ARSC suggested that a webcast could be presented, or an article developed, that broadly discusses the concept and importance of obtaining an engagement letter for various professional services. It was suggested that a panel could

include representatives of the ARSC, ASB, Technical Issues Committee, Professional Ethics Executive Committee, and insurance representatives. Mr. Glynn stated that he would start with the CPEA to see if they would be interested in the topic.

*Issue #2 – Failure to document expectations or the comparison of expectations to recorded amounts in the performance of analytical procedures in a review of financial statements*

After discussion, the ARSC suggested that a webcast discussing the performance of analytical procedures in a review engagement including the documentation of expectations and the comparison of expectations to recorded amounts would be of value. Mr. Glynn stated that he would pass the suggestion along to the CPEA.

Ms. Kerber suggested that as part of the next standard setting process that the ARSC consider additional guidance with respect to developing and documenting expectations in a review engagement.

*Issue #3 – Failure to obtain appropriate management representation letters in a review of financial statements*

The ARSC considered whether additional guidance is necessary to reduce the occurrence of accountants failing to obtain appropriate management representation letters. The ARSC did not feel that the issue was significant enough to warrant a webcast or article.

*Issue #4 – Failure to prepare compilation and review reports in accordance with Professional Standards*

The ARSC considered whether additional guidance is necessary to reduce the occurrence of accountants failing to prepare compilation and review reports in accordance with Professional Standards. The ARSC felt that an article in the Journal of Accountancy or a CPEA Practice Alert would be appropriate. The article should address SSARSs reports only as an article that also included auditor's reports would dwarf the SSARSs guidance.

The ARSC also noted that there are several illustrative reports that are included in the Guide, *Preparation, Compilation, and Review Engagements* and suggested that it would be in the public interest to make those illustrations available on the AICPA website.

**Open Discussion of Issues Related to SSARSs Engagements**

Ms. Kerber questioned whether guidance should be developed to address reviews of initial or short periods. The ARSC directed that guidance be considered for a subsequent edition of the Guide, *Preparation, Compilation, and Review Engagements*.

Mr. Nunnally stated that if a new standard is issued that the ARSC should consider revising the reporting requirements for review engagements for consistency with the requirements in the auditing standards with respect to transparency regarding management's and the accountant's responsibilities with respect to consideration of the entity's ability to continue as a going concern and for the accountant's responsibility to perform the engagement with professional skepticism.

**Subsequent ARSC Meetings**

The ARSC directed that the next Committee meeting be held via videoconference on January 28, 2021 from 1:00 – 4:00 pm ET.