



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

**Meeting Highlights  
January 28, 2021  
Videoconference**

**MEETING ATTENDANCE**

ARSC Members

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

AICPA Staff who were granted the floor during the meeting

Jennifer Burns, *Chief Auditor*  
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)*

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 Jennifer Burns, the AICPA’s new Chief Auditor. Ms. Burns introduced herself and the ARSC members subsequently provided short individual introductions.

Mr. Ard then welcomed Tracy Harding, Chair of the ASB, to the meeting. Mr. Harding provided a summary of the ASB’s January 11-14, 2021 meeting. Mr. Harding stated that the ASB voted to issue a proposed revision to AU-C section 210, *Terms of Engagement*, related to noncompliance with laws and regulations (NOCLAR). While there is no proposed change in the requirement for a successor auditor to request that the client authorize the predecessor auditor to communicate with the successor, the proposal would require, if authorization is granted, that the successor inquire of the predecessor regarding fraud and NOCLAR. Further, the proposal would require the predecessor to respond, unless certain circumstances prevent a response. Such circumstances are expected to be rare.

Mr. Harding also stated that the ASB voted to expose proposed standards intended to enhance firms’ quality management systems.. The exposure draft, *Proposed Quality Management Standards*, includes three interrelated proposed standards:

- Proposed Statement on Quality Management Standards (SQMS) *A Firm’s System of Quality Control*
- Proposed SQMS *Engagement Quality Reviews*

- Proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*

The proposed standards would change the way firms are expected to manage quality for their accounting and auditing practices. The proposed standards include a new proactive risk-based approach to effective quality management systems within firms, which is intended to improve the scalability of the standards because it promotes a system tailored to the nature and circumstances of the firm and its engagements. The hot button issues related to the proposed standards include a mandatory 2 year cooling off period after serving as engagement partner before serving as engagement quality reviewer; a prohibition against a partner inspecting his or her own engagements as part of the annual inspection; and how the proposal works in a group audit scenario (as component auditors will be considered members of the engagement team).

The proposed standards would be largely converged with the International Auditing and Assurance Standards Board's (IAASB) recently finalized quality management standards.

Mr. Harding also stated that the ASB discussed a potential project to permit practitioners to perform direct review engagements and requested that, as a first step, outreach be performed to practitioners who have performed attestation reviews and direct examinations to obtain feedback about how the direct examination would be scaled back if the practitioner were to be engaged to obtain only limited assurance. Further, the ASB requested that the Task Force continue to consider whether the prohibitions on an attestation review on prospective financial information, internal control, and compliance be retained. Mr. Harding thanked Mr. Ard and David Johnson for their participation in the Attestation Standards Task Force.

Mr. Harding also stated that the ASB considered comment letters received on the exposure draft of proposed revised AU-C section 315 on risk assessment; is tracking the IAASB project on group audits and providing input; and reviewed a draft of the ASB comment letter on the IAASB's discussion paper on fraud and going concern expectation gaps.

With respect to other activities, Mr. Ard stated that he, Mr. Nunnally, and Mr. Glynn along with representatives of the ASB and the Center for Plain English Accounting (CPA) will be participating in a webcast on February 18, 2021 on the revised attestation standards.

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

Significant issues discussed during the ARSC meeting included the following:

### **ASB's Direct Reviews Project**

Mr. Glynn presented the issue. The project represents the potential 4<sup>th</sup> standard developed and issued as part of an exposure draft issued in October 2018. The ARSC has been heavily involved in the project to revise the attestation standards as the ARSC and ASB share the authority to issue attestation standards. The ASB directed the Task Force to reach out to international practitioners who performed direct reviews to get additional perspectives on scaling procedures to obtain limited assurance in an engagement in which the practitioner performs the initial measurement or evaluation of the subject matter. Mr. Glynn stated that he has reached out to staff at the AICPA equivalents in Canada and Australia to start dialogue. In addition, the ASB directed the Task Force to continue consideration as to whether to retain the prohibitions on reviews of (a) prospective financial information; (b) internal control; or (c) compliance with requirements of specified laws, regulations, rules, contracts, or grants.

### **NOCLAR**

In addition to the ASB's NOCLAR project, Mr. Glynn advised the ARSC that the Professional Ethics Executive Committee (PEEC) is meeting on February 9, 2021 and is expected to vote to expose proposed interpretations dealing with members' responsibilities with respect to NOCLAR. The PEEC interpretations would not amend auditing standards or SSARs but would impose requirements on CPAs performing such services that go beyond the auditing standards or SSARs.

The proposed interpretations would, when NOCLAR is discovered, require CPAs performing an audit, review, or a compilation in which the CPA does not disclose an independence impairment in his or her report (herein after referred to as "attest engagements") to:

- Obtain an understanding of the matter
- Discuss the matter with the appropriate level of management and, if appropriate, those charged with governance
- Advise the client to take appropriate action to rectify or remediate NOCLAR and where appropriate disclose the matter to an authority where required by law or regulation
- If determined that management's response is not appropriate, consider withdrawing

CPAs performing a compilation in which an independence impairment is disclosed in his or her report or a preparation engagement (hereinafter referred to as a "nonattest engagement") would be required to only perform the first two bullets in the preceding.

Mr. Westervelt expressed a concern that practitioners performing SSARs engagements may miss the performance requirements included in the interpretations and suggested that the AR-C sections should repeat the requirements. Mr. Glynn suggested that the requirements could be repeated as application guidance off the requirement in paragraph .08 of AR-C section 60 that the accountant comply with relevant ethical requirements.

Ms. Illuzzi stated that the PCPS Executive Committee has concerns with the proposed PEEC interpretations and will appropriately communicate those to the PEEC in a comment letter to the exposure draft.

**2021 edition of the *Preparation, Compilation, and Review Engagements Guide***

Mr. Glynn stated that it is his understanding that the 2021 edition of the *Preparation, Compilation, and Review Engagements Guide* (the “Guide”) will be developed in April 2021. The final review of the 2021 edition will be done by the ARSC in July/August 2021 and the Guide is expected to be issued in late August 2021.

Mr. Ard stated that guidance with respect to the performance of analytical procedures in a review engagement needs to be developed and issued quickly as practitioners are currently performing reviews of December 31, 2020 financial statements. Mr. Ard suggested that an article be developed and issued either in the Journal of Accountancy or in a CPEA Practice Alert. That guidance could then be repeated in the 2021 edition of the Guide.

**Open Discussion**

The ARSC members discussed other practice issues and whether additional guidance is needed. Those issues included:

- Consideration of going concern in a compilation engagement
- Compilations and reviews of financial statements prepared in accordance with a special purpose framework

**Subsequent ARSC Meetings**

The ARSC directed that the next Committee meeting be held via videoconference on May 24, 2021 from 1:00 – 4:00 pm ET.