



ACCOUNTING AND REVIEW SERVICES COMMITTEE (ARSC)
Meeting Highlights
November 2, 2021
Videoconference

MEETING ATTENDANCE

ARSC Members

Denny Ard, *Chair*
W. Barclay Bradshaw
Ignatius Jackson
Karen Kerber
Michael Manspeaker
Kim Meyer
Michael Westervelt

AICPA Staff who were granted the floor during the meeting

Jennifer Burns, *Chief Auditor*
Mike Glynn, *Senior Manager—A&A Standards*
Ahava Goldman, *Associate Director – A&A Standards*
Michael A. Jones, *Asst. General Counsel—General Counsel & Trial Board*

General Update

Ms. Burns provided an update as to the recent activities of the Auditing Standards Board (ASB). The ASB met October 12-14, 2021. The ASB discussed comment letters received on the proposed Quality Management Standards - Statements on Quality Management Standards (SQMS) – Quality Management: *A Firm’s System of Quality Management*, and *Engagement Quality Reviews* and Statement on Auditing Standards (SAS), *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*. The ASB directed that the following changes be made to the proposed standards:

- Permit self-inspection.
- Do not require a cooling-off period for engagement quality reviews (EQRs).
- Retain the extant requirement that the EQR has to be completed before the report is released, and not before the report is dated.

The ASB discussed the effective date of the proposed QM standards. The ASB was generally supportive of an effective date that is tied to a firm’s peer-review year-end date but found the description of how to implement that confusing. The ASB directed the Task Force to consult with the Peer Review team on how to simplify this option.

The ASB also discussed a draft of a proposed SAS, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*. The ASB will be asked to vote to issue the proposed SAS at a meeting after the Professional Ethics Executive Committee (PEEC) votes to approve proposed revisions to the Code of Professional Conduct regarding responding to noncompliance with laws and regulations (NOCLAR). The PEEC currently anticipates finalizing the proposed Code revisions at its meeting in

February 2022. A final SAS, if approved, would be issued in conjunction with final revisions to the Code of Professional Conduct.

The ASB also discussed a draft of a proposed SAS, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. The ASB directed that the definition of component auditor exclude auditors to whom reference is made, and that a separate AU-C section be created to address making reference to the report of other auditors. The ASB plans on issuing an exposure draft of the proposed SAS in the first quarter of 2022.

Approval of Highlights from May 2021 Meeting

Mr. Manspeaker made a motion, which was seconded by Ms. Kerber to approve the highlights of the May 2021 ARSC meeting. The highlights were unanimously approved as presented.

Quality Management

The ARSC's objective is to discuss and vote to expose for public comment a draft of the proposed SSARS, *Quality Management for an Engagement Performed in Accordance with Statements on Standards for Accounting and Review Services* (the "QM SSARS").

The ARSC intent is to issue a standard consistent with the proposed SAS that would be issued as final at the same time as the ASB's Quality Management Standards. If the ARSC votes to expose the proposed QM SSARS for public comment, the exposure draft will be issued in early November 2021 with a comment period end in late January 2022. The ARSC will consider comments received on the exposure draft at its meeting in February 2022. Assuming that the ASB votes at its May 2022 meeting to issue the Quality Management Standards, the ARSC will be asked to vote to issue the proposed QM SSARS as a final standard at its May 2022 meeting – which is a week after the ASB meeting.

The proposed SAS has been non-controversial and the ASB has not proposed any substantive revisions to the draft as exposed.

In addition to the proposed revisions to AR-C sections 60 and 90 for consistency with the proposed SAS, the proposal presented to the ARSC also includes a revision to paragraph .16 of AR-C section 90 to eliminate an inconsistency in SSARS 25. The proposal does not include any revisions to the review reporting requirements.

Ms. Goldman joined the conversation as she staffs the ASB's Quality Management Task Forces. On walkthrough of the proposed SSARS and related explanatory memorandum, the ARSC directed that:

- The explanatory memorandum should include language stating that if the ASB revises the proposed SAS, the ARSC will consider additional revisions to the SSARSs to ensure consistency, when appropriate. As an example, the explanatory memorandum should state that the ASB's Quality Management Task Force is considering clarifying how the use of the term *deficiency* in the Professional

Standards differs from the use of the term in the peer review literature. If changes are made to the corresponding paragraph in the proposed SAS, the proposed SSARS will be revised for consistency.

- An application paragraph consistent with paragraph .A46 of the QM SAS should be included and hang off proposed paragraph .23. The application paragraph would provide examples of “appropriate actions” that, if matters come to the engagement partner’s attention through the firm’s system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take.

After discussion, Mr. Manspeaker made a motion, seconded by Mr. Jackson, to expose the proposed QM SSARS for public comment.

Subsequent ARSC Meetings

The ARSC directed that the next Committee meeting be held via videoconference on February 28, 2022 from 12:00 – 4:00 pm ET. At that meeting, the ARSC will consider comments received on the exposure draft of the proposed QM SSARS.

The ARSC will also meet on May 17, 2022 – which the week after the ASB’s May 2022 meeting. If the ASB votes to issue the Quality Management Standards at its meeting in May, the ARSC will consider voting to issue the QM SSARS at its meeting on May 17.