

**Accounting and Review Services Committee
Meeting Highlights
April 28-30, 2015**

Committee members present:

Michael Brand, Chair
Joseph Beck
Jeremy Dillard
Aron Dunn
Mike Fleming
Janice Gray (April 28-29 only)
Kelly Hunter

AICPA staff present:

Mike Buddendeck – AICPA General Counsel (April 28-29 only)
Doug Bowman – Senior Technical Manager, Accounting & Auditing Publications (April 28 and 30 only)
Bob Durak – Director, AICPA Center for Plain English Accounting (during liaison with Staff of the Center for Plain English Accounting on April 29 only)
Mike Glynn – Senior Technical Manager, Audit & Attest Standards; Staff Liaison – Accounting and Review Services Committee
Michael Grant – Senior Manager – Instructional Systems Design, Professional Development Team (April 29 only)
Tom Groskopf – Technical Director, AICPA Center for Plain English Accounting (during liaison with Staff of the Center for Plain English Accounting on April 29 only)
Kristy Illuzzi – Senior Technical Manager, Center for Plain English Accounting (on phone on April 28-29 only)
Tim Kindem – Technical Manager, Peer Review Program Team (April 29 only)
Chuck Landes – Vice President, Professional Standards
Ashley Matthews – Technical Manager, Member Learning & Competency Portfolios
Kelly McAuliffe – Technical Manager, Accounting and Auditing Content Development (April 28-29 only)
Richard Miller – Special Counsel
Andrea Sterling – Editor – Continuity Products & Newsletters, Specialized Pubs & Rights Management Team
Linda Volkert – Staff Liaison to the PCPS Technical Issues Committee

Observers:

Denny Ard – Dixon Hughes Goodman LLP
Laura Billingsley – Practitioners Publishing Company
Duncan Will – CAMICO (April 28-29 only)

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met April 28-30, 2015 in Durham, NC. The following issues were discussed:

Welcome and overview of meeting objectives

Chair's Report

M. Brand stated that with the issuance of SSARS No. 21 in August 2014, 2015 is proving to be a big year with respect to educating the profession regarding the new requirements for reviews, compilations, and engagements to prepare financial statements. M. Brand stated that he will be speaking at a conference in May 2015 with respect to SSARS No. 21 implementation strategies. In addition M. Brand and M. Glynn will be presenting together at the National Advanced Accounting and Auditing Technical Symposium (NAAATS) on July 13, 2015 and will do a webcast together for the AICPA on July 9, 2015 which will be rebroadcast several times.

Director's Report

C. Landes stated that the Department of Labor is expected to issue a report before the May 17-20, 2015 AICPA Employee Benefit Plan Conference in Washington, DC. C. Landes stated that he has seen the statistics that will be highlighted in the report and they are concerning. The result will be an increase in the push to enhance audit quality. The Auditing Standards Board has a Task Force looking at possible revisions or interpretations to the quality control standards. That Task Force is being chaired by former ARSC Chair Carol Mc Nerney. The AICPA Peer Review Team had asked the ASB to write some bright lines in the QC standards but the ASB has concluded that such bright lines would not be appropriate. Instead, peer reviewers need to call out firms that are doing poor audit work. C. Landes stated that he and Ahava Goldman (Senior Technical Manager, AICPA Audit and Attest Standards Team and staff liaison to the ASB) are working with the AICPA Peer Review Team to provide clear guidance to peer reviewers as to when items should be classified as deficiencies. C. Landes stated that it is his personal opinion that there is a lot of work that needs to be done with respect to educating peer reviewers with respect to the QC standard as well as standards in general.

C. Landes stated that the AICPA recently issued a new technical Q&A document to provide nonauthoritative guidance to practitioners in connection with the "Best Practices" framework of the American Land Title Association (ALTA). C. Landes stated that this will result in a service opportunity for smaller firms. The Q&A address the types of engagements that a CPA may perform for a title insurance and settlement company in order to assist management and third parties about whether the company has implemented the framework; the criteria against which the subject matter would be evaluated and whether such criteria is suitable and available; the nature of the examination or review procedures that should be applied to the company's best practices; and an illustrative report that could be issued to meet the requirements of AT section 101.

C. Landes stated that the ASB continues to work on clarifying the attestation literature. The ASB is scheduled to meet May 12-14, 2015 in Baltimore and will be requested to vote chapters 1-4 of the proposed clarified standards as final. The standards will not be issued until the subject matter specific chapters are voted final. It is hoped that the entire body of final clarified attestation standards will be issued by the end of calendar 2015. It is expected that there will be a discussion at the ASB meeting as to the appropriateness of the proposed requirement that the CPA obtain a written assertion from the responsible

party. In many circumstances, management is unable or unwilling to make that assertion. As drafted, the standard would preclude CPAs from performing an attestation standard if management is unable or unwilling to make the assertion. The issue is particularly important to engagements to apply agreed-upon procedures as a three-party engagement is common.

With respect to the auditor reporting project, C. Landes stated that the ASB is waiting to see what the PCAOB does. The International Auditing and Assurance Standards Board has issued new auditor reporting standards that are very well received globally. One significant difference between the former international reporting standards and the new standards is the introduction of “key audit matters” in the auditor’s report. The IAASB made the requirement voluntary for non-public entities. The report will also include additional disclosure regarding going concern and other information included in annual reports.

C. Landes stated that auditor association has historically been addressed in an audit guide dealing with not-for-profit bond offerings. The ASB is considering whether an audit standard should be issued dealing with such association. If such a standard is issued, it would most likely deal with all private security offerings and would require that the auditor update his or her procedures with respect to subsequent events. The ASB would have to consider how that would affect the date of the auditor’s report on the financial statements. M. Fleming stated that he hopes that the ASB develops and issues a standard on auditor association.

C. Landes stated that an award will be presented at the NAAATS conference on July 13, 2015 in memory of Dr. Thomas Ratcliffe.

Open Discussion of SSARS 21 Implementation Issues and Other A&A Issues

M. Glynn stated that Chas McElroy (who chaired the SSARS 21 Task Force) submitted a SSARS 21 implementation issue that he would like the ARSC to consider. Chas feels that the effective date of SSARS 21 presents an implementation issue with respect to engagements where the firm is engaged to prepare monthly financial statements during 2015. The issue in summary is as follows:

- SSARS 21 is effective for periods ending on or after December 15, 2015.
- If the firm is engaged to prepare monthly financial statements (or other interim statements) and does not early implement SSARS 21, the firm would perform compilation engagements in accordance with SSARS 19 for each of the interim periods prior to the last period of the year. The firm would then be required to perform the engagement (whether a preparation service or a compilation) in accordance with SSARS 21 for the last period (including the SSARS 21 engagement letter and compilation report).
- Chas believes that this is inefficient and may trigger peer review issues.

Chas feels that the situation above was not intended when the ARSC determined the effective date of SSARS 21. After discussion, the ARSC determined that it would not amend the effective date of SSARS 21.

Approval of highlights from November 11-13, 2014 ARSC meeting

J. Dillard made a motion that the ARSC approve the highlights of the November 11-13, 2014 meeting as presented. K. Hunter seconded the motion and the ARSC unanimously voted to approve the highlights.

Executive Session – Presentation by AICPA Professional Liability Insurance Plan

The ARSC met with Sarah Ference and Stan Sterna from CNA Insurance and discussed CNA claim experience related to compilation and review services; common deficiencies noted in compilation and review claims that relate to the failure to meet the standard of care in the conduct of the engagement; and key risk management strategies to help prevent claims from occurring or increase the defensibility should a claim arise.

Draft proposed SSARS Assembly of Prospective Financial Information

M. Fleming presented the agenda materials and advised that the objective was to discuss issues related to the proposed standard *Assembly of Prospective Financial Information* and vote to expose the proposed standard for public comment.

Separation of Assembly Requirements From Compilation Requirements

The ARSC agreed with the Task Force that the proposed standards are easier to read, understand, and apply if the assembly of prospective financial information and the compilation of prospective financial information are presented in separate sections. R. Miller stated that he was concerned about the use of the term “assembly” as it seems to mean the same thing for prospective financial information as “preparation” does in the context of historical financial statements.

C. Landes questioned whether it was appropriate to restrict for internal use only prospective financial statements prepared by the accountant but not subjected to a compilation engagement. The ARSC had previously determined as part of its discussions in developing SSARS 21 that the accountant cannot control distribution of historical financial statements.

After discussion, the ARSC determined that a separate standard on assembly of prospective financial information would not be issued. Instead, AR-C section 70, *Preparation of Financial Statements* should be amended to require that the section be applied, adapted as necessary in the circumstances, to the preparation of prospective financial information. The section would not be significantly amended for prospective financial information – including no restriction on use.

Because the SSARSs allow preparation and compilation of historical financial statements that omit substantially all disclosures, the ARSC considered whether the standards should permit the accountant to prepare or issue a compilation report on prospective financial statements that omit disclosure of the summary of significant assumptions. Since the

summary of significant assumptions is essential to the user's understanding of prospective financial information, the ARSC concluded that the accountant should not perform a compilation engagement on:

- a. prospective financial information that exclude disclosure of the summary of significant assumptions, or
- b. a financial projection that excludes either (a) an identification of the hypothetical assumptions or (b) a description of the limitations on the usefulness of the presentation.

The ARSC determined to not include such a prohibition with respect to preparation of prospective financial information.

Draft proposed SSARS Compilation of Prospective Financial Information

M. Fleming presented the agenda materials and advised that the objective was to discuss issues related to the proposed standard *Compilation of Prospective Financial Information*. Because of the ARSC's directive that AR-C section 70 should be revised to require that accountants engaged to prepare prospective financial information follow that section, M. Fleming stated that the ARSC would not be required to vote to expose the proposed standard for public comment as such vote will be considered when the ARSC has the opportunity to consider the proposed revisions to AR-C section 70.

The ARSC considered whether early implementation should be permitted with respect to the proposed SSARS on compilation of prospective financial information. The ARSC ultimately concluded that early implementation should be permitted.

The ARSC considered the draft of the proposed standard and directed that the Task Force make certain revisions, including:

- Adding a requirement for the accountant to obtain the responsible party's agreement that, if the prospective financial information is a partial presentation, that the partial presentation will not be distributed to those who will not be negotiating directly with the responsible party.
- Adding a requirement that, when the accounting principles used in the preparation of the prospective financial statements are different than those expected to be used in the preparation of the historical financial statements, the accountant inquire as to how the responsible party determined that the appropriate accounting principles were used in the preparation of the prospective financial information.
- Adding a requirement that the accountant consider whether the responsible party has a reasonably objective basis for presenting a forecast.

- Looking to the illustrative representation letters included in the Prospective Financial Information Guide and developing requirements that line up with the illustrations.
- If disclosures are omitted, adding a requirement that management represent that they have chosen not to include disclosures.
- Draft what the reports should look like and develop the requirements to match.
- Removing the restricted use language from the illustrative accountant's compilation report on a projection that does not contain a range as such report need not be restricted as to use. Instead, require a statement that the projection is not designed for those who are not negotiating directly with the entity for the stated purpose.
- Deleting the illustrative compilation report on a financial forecast supplemented by a financial projection

In reviewing the illustrative engagement letters and comparing to the illustrative engagement letters for compilation of historical financial statements included in SSARS 21, the ARSC noted that the SSARS 21 illustrations do not include the required language stating that there may be circumstances in which the accountant's compilation report differs from the expected form and content. The ARSC directed that the illustrations to AR-C section 80 be revised to include the required language.

The Committee directed that C. Landes, M. Glynn, and M. Fleming meet with Don Pallais – who is the Chair of the ASB's Attestation Clarity Task Force and author of the Prospective Financial Information Guide. The purpose of the meeting would be to make sure that there were no unintended consequences or omitted items from the proposed standard on compilation of prospective financial information and that all of the necessary "hooks" are included in the proposed SSARSs to facilitate the drafting of the revised Prospective Financial Information Guide. The Task Force will subsequently circulate a draft to the ARSC and schedule a public conference call in order to vote whether to expose the proposed standard for public comment.

Liaison With the Staff of the Center for Plain English Accounting

Staff from the AICPA's Center for Plain English Accounting (CPEA) met with the ARSC and discussed the following:

- SSARS No. 21 – nature of questions received by CPEA and discussion about whether additional resources should be provided to members
- Review engagements – negative assurance, liability issues
- Going concern

- Common SSARSs-related technical inquires and webcast questions received by the CPEA
- Common SSARSs-related peer review findings

Proposed Revisions to SSARS 21

M. Fleming presented the agenda materials and advised that the objective was to discuss issues related to the proposed revisions to SSARS 21. Because of the ARSC's directive that AR-C section 70 should be revised to require that accountants engaged to prepare prospective financial information follow that section, M. Fleming stated that the ARSC would not be required to vote to expose the proposed revisions for public comment as such vote will be considered when the ARSC has the opportunity to consider the additional proposed revisions to AR-C section 70.

The ARSC directed that the Task Force make minimal revisions to SSARS 21 and the Prospective Financial Information Guide will then provide specific guidance for preparation of prospective financial information.

Wrap-up

The next in-person meeting of the ARSC will be October 27-29, 2015 in Point Clear, AL. At that meeting, the ARSC will separately liaise with the AICPA's Technical Issues Committee and the Alabama Society of CPA's A&A Committee. The ARSC will also discuss the disposition of the interpretations to AR sections 80 and 90 as well as the AR sections that were not included in SSARS 21.

The ARSC will also meet January 5-7, 2016 in Sarasota, FL. The specifics of the meeting agenda will be determined at a later date.