

**Accounting and Review Services Committee
Meeting Highlights
October 27-29, 2015**

Committee members present:

Michael Brand, Chair
Joseph Beck
Jeremy Dillard
Aron Dunn
Mike Fleming
Kelly Hunter

AICPA staff present:

Erik Asgeirsson, CEO and President, CPA.com (October 27 only)
Doug Bowman – Senior Technical Manager, Accounting & Auditing Publications
Mike Glynn – Senior Technical Manager, Audit & Attest Standards; Staff Liaison –
Accounting and Review Services Committee
Michael Jones – Assistant General Counsel
Chuck Landes – Vice President, Professional Standards
Ashley Matthews – Technical Manager, Member Learning & Competency Portfolios
Kalil Merhib – Enterprise Business Development Manager, CPA.com (October 27 only)
Richard Miller – Special Counsel (via telephone)
Carl Peterson – Vice President, Small Firm Interests, Firm Services & Global Alliances
(October 28-29 only)
Linda Volkert - Staff Liaison to the PCPS Technical Issues Committee, Firm Services
and Global Alliances Team, Center for Plain English Accounting (October 29 only)

Observers:

Laura Billingsley – Practitioners Publishing Company
Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing
Loss Prevention Specialist (via telephone – October 29 only)

Alabama Society of CPAs A&A Committee Representatives (all for the morning of
October 28 only, except as otherwise noted)

Jeannine Birmingham – Alabama Society of CPAs President & CEO
Derrel Curry
Steve Grice
John Heath
Marty Lee
Marlene McCain
Jason Miller (for the entirety of the meeting)
Rick Turpen

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met
October 27-29, 2015 in Point Clear, AL. The following issues were discussed:

Welcome and overview of meeting objectives

Chair's Report

M. Brand stated that during the meeting representatives of CPA.com will make a presentation of the AICPA's financial statement clearinghouse to the ARSC members. The new financial clearinghouse solution, Rivio.com, provides a private company financial information exchange that validates CPA firms, and ensures that the most current, unaltered version of financial documents are delivered to key financial stakeholders.

Additionally, during the meeting, the ARSC will liaise with the AICPA Technical Issues Committee as well as the Alabama Society of CPAs A&A Committee.

M. Brand advised that the meeting represented his last meeting as Chair of the ARSC as well as the last meeting for ARSC members J. Beck and J. Gary. M. Glynn thanked M. Brand for his leadership of the ARSC as it issued one of the most significant SSARSs – SSARS 21. M. Brand and J. Beck were provided with mementoes to commemorate their service. M. Glynn stated that a certificate was mailed to J. Gray as she was unable to attend the meeting.

M. Brand stated that R. Miller was participating via telephone as he is recovering from recent surgery. The ARSC members all wished R. Miller well as he continues to recover.

M. Brand stated that he had a very busy summer with speaking engagements on SSARS 21. M. Brand has received extremely positive feedback from those members who have early implemented the standard.

The question as to whether the preparation service is subject to peer review continues to come up. M. Brand stated that he has advised CPAs that firms that perform only preparation engagements are not required to enroll in the AICPA Peer Review Program. However, a firm's preparation engagements would be included in the scope of a peer review when the firm either elects to enroll in the program or is required to enroll due to the performance of audits, reviews, or compilations. The AICPA Peer Review requirements are effective for peer reviews commencing on or after February 1, 2015. M. Brand has advised that firms should check with their applicable state board as the state requirements may be different. For example, Texas requires all firms that perform SSARSs engagements to enroll in peer review. Other states exempt compilations. Many states are reconsidering their peer review requirements.

M. Fleming stated that his firm received an e-note from PNC Banks stating that their credit department had not heard of the new requirements that would allow accountants to prepare financial statements for third party use without issuing a compilation report. The bank stated that they most likely would not accept such prepared financial statements without a compilation report – at least not for their “larger” clients. The bank asked whether a preparation engagement was a “step down” from a compilation. M. Fleming's firm has suggested a webinar that clients could use to educate banks about the nonreporting service. M. Brand stated that there is an obvious educational need with

respect to lenders. Lenders need to be educated as to what the compilation provides as many impute an inappropriate level of assurance due to the accountant's report. R. Miller stated that users need to understand that a compilation is not a "step up" – just acknowledging the accountant's association with the financial statements.

M. Brand stated that he would be traveling to Beirut in early November with Jim Brackens (AICPA Vice President – Ethics and Practice Quality) to conduct a peer review training seminar for the Lebanese Association of CPAs. The seminar will include CPAs from Lebanese, Egyptian, and Jordanian CPA firms.

M. Glynn announced that M. Fleming would succeed M. Brand as Chair of the ARSC. M. Fleming's first meeting as Chair will be in January 2016.

Director's Report

C. Landes stated that the ASB met October 13-15 in New Orleans. The October meeting represented the final in person meeting to be Chaired by Bruce Webb as Mike Santay from Grant Thornton will assume the Chair position at the ASB's meeting in January 2016.

Attestation Standards

The ASB discussed the proposed chapters of the clarified attestation standards and agreed to revise the proposed standards to enable the CPA to report on the subject matter in an examination or review engagement even if the responsible party refuses to provide a written assertion, if the responsible party is not the engaging party. In those circumstances use of the report would be restricted and the report would state that the responsible party did not provide an assertion. Changes are to be made to all of the chapters of the proposed clarified attestation standards to reflect this conclusion. The ASB scheduled a meeting to be held telephonically on November 23, 2015, to review these changes and to vote to ballot the chapters for issuance as a final standard.

Direct Engagements

The ASB also discussed the concept of a direct engagement in which the CPA would not obtain an assertion from the client. The IAASB and the GAO have long permitted such engagements. The ASB was unable to resolve certain fundamental issues underpinning the development of a standard addressing direct engagements. The ASB will undertake further study of the issues and will discuss the topic again at its meeting in January 2016.

Reports on ERISA Audits

The ASB also discussed issues relating to developing a new requirement for employee benefit plans to report on internal control over financial reporting and compliance with certain provisions of the plan document and DOL rules and regulations for reporting and disclosure under ERISA. The GAO requires supplemental reporting around compliance and internal control findings relative to the audit and the thought was that an ERISA audit requirement could be developed that would require a similar work effort and reporting. The ASB also continued to discuss the limited scope audit but has not made any final decisions. The DOL had expressed a concern that many smaller firm CPAs have not

considered the engagement to be an audit since the CPA was issuing a disclaimer. The ASB will continue discussing the issues at future meetings.

Going Concern

C. Landes stated that the ASB had been waiting to see what direction the PCAOB will be taking with respect to going concern before proceeding but determined to start its project. The ASB's game plan is to have a new going concern audit standard in place when the accounting standard become effective. The standard would be framework neutral and would not be a significant departure from extant standards but would be intended to align certain GAAS performance requirements to the recently issued FASB standard on going concern and ISA 570, *Going Concern*. Because the issues may impact the SSARSs, A. Dunn has been added to the ASB's Going Concern Task Force. The ASB will continue discussing the issues at its meeting in January 2016.

Approval of highlights from the April 28-30, 2015 ARSC meeting

J. Dillard made a motion that the ARSC approve the highlights of the April 28-30, 2014 meeting as presented. J. Beck seconded the motion and the ARSC unanimously voted to approve the highlights.

Draft proposed SSARSs Compilation of Prospective Financial Information, Compilation of Pro Forma Financial Information, Omnibus - 2016

M. Fleming presented the agenda materials and advised that the objective was to discuss issues related to the proposed standards *Compilation of Prospective Financial Information, Compilation of Pro Forma Financial Information, and Omnibus Statement on Standards for Accounting and Review Services - 2016* and vote to expose the proposed standards for public comment.

Proposed SSARS *Compilation of Prospective Financial Information*

Written Representations in a Compilation of Prospective Financial Information

M. Fleming asked the ARSC whether it believes that the requirement in the proposed SSARS, *Compilation of Prospective Financial Information* for the accountant to obtain (vs. merely request) written representations from the responsible party continues to be appropriate considering that a compilation is a non-assurance engagement. He also described the background of this issue and stated that the Task Force believes strongly that this extant requirement, which requires the accountant to withdraw if the requested representations are not received, be retained. While the Task Force recognizes that a compilation is not an assurance engagement, it reasoned that the responsible party's assumptions in an engagement in which the subject matter is prospective financial information provide the sole basis for the presentation (as sharply contrasted with the existence of books and records in an engagement in which the subject matter is historical financial statements). Only the responsible party is in a position to know whether the assumptions are appropriate and faithfully represent the manner in which management intends to operate the entity's business going forward.

J. Dillard stated that he does not believe that there should be a requirement for the accountant to obtain written representations in a compilation of prospective information

as such a requirement would be inconsistent with the requirements for a compilation of historical financial statements.

M. Fleming stated that he believes that the requirement for the accountant to obtain written representations should be retained since accountants who perform these engagements have always obtained such written representations. He noted that Task Force member firms have expressed their intentions to continue to do so, as have ARSC member firms. He went on to question that, in light of the expected continuation of this procedure as an expected best practice vs. a SSARS requirement, whether the public interest would be appropriately served by not retaining the extant requirement. Also, M. Fleming pointed out that a compilation of prospective financial information cannot in this context be analogized to a compilation of historical financial statements because, unlike historical financial statements, an accountant is precluded from performing a review of prospective financial information. This preclusion is particularly important and relevant relative to this issue because in practice, as a practical matter due to time, economic and other constraints, an examination service is rarely a realistic option as an alternative to parties desiring something more than a compilation service.

After discussion, the ARSC concluded that a requirement for the accountant to obtain (vs. merely request) written representations is simply inconsistent with an engagement in which the accountant is not required to obtain any assurance. An important element of the written representations required by extant AT section 301 is management's acknowledgment of its responsibility for the significant assumptions. The ARSC believes that the requirement in the proposed SSARS for the accountant to obtain an engagement letter or other suitable form of written agreement between the parties that includes, among other things, the responsible party's agreement that the prospective financial information will include disclosure of the significant assumptions provides, in substance, the same acknowledgement as required by extant AT section 301.

The ARSC directed that the explanatory material to accompany the exposure draft of the proposed Standard include a specific request for comment asking respondents to respond specifically as to whether they agree with the decision to not require written representations in a compilation of prospective financial information and provide reasoning.

Other issues discussed include the following:

Suitable criteria

The ARSC members raised a concern regarding a statement in the proposed Standard that stated the AICPA Guide *Prospective Financial Information* establishes the preparation and presentation guidelines for financial forecasts and financial projections. While the ARSC members could not immediately identify any other sources of suitable criteria for the preparation and presentation of PFI, the ARSC did not want to preclude an accountant from performing a compilation of PFI if other suitable criteria was developed. The ARSC directed that an application paragraph be added to the proposed Standard, as follows:

A1. The Guide provides suitable criteria for the preparation and presentation of prospective financial information. While this section refers to the Guide, the accountant is not prohibited from performing a compilation engagement on prospective financial information prepared and presented in accordance with other suitable criteria. If other suitable criteria are used, this section should be adapted as necessary.

Restricted Use of Report on a Financial Projection

The draft of the proposed Standard stated that an accountant's compilation report on a financial projection should include a statement that the projection is not designed for those who are not negotiating directly with the responsible party for the stated purpose. The ARSC questioned the adequacy of that statement and directed that the reporting requirement be revised to state that an accountant's compilation report on a financial projection should include an alert, in a separate paragraph, that restricts the use of the accountant's report; the alert should

- a. state that the report is intended solely for the information and use of the specified parties,
- b. identify the specified parties for whom use is intended, and
- c. state that the accountant's report is not intended to be and should not be used by anyone other than the specified parties

Proposed SSARS Compilation of Pro Forma Financial Information

The ARSC proposed no significant revisions to the draft Standard

Proposed SSARS Omnibus -2016

The ARSC directed that the proposed revisions to AR-C section 60 include definitions of *financial statements* and *prospective financial information*.

The ARSC directed that the proposed revisions to AR-C section 70 include

- A requirement that states that since the summary of significant assumptions is essential to the reader's understanding of prospective financial statements, the accountant is precluded from preparing prospective financial statements that exclude disclosure of the summary of significant assumptions. Also, the accountant is precluded from preparing 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
- A statement that if the accountant is engaged to perform an engagement in accordance with SSARSs on financial information other than historical financial statements (for example, the preparation or compilation of prospective financial information or the compilation of pro forma financial information), references in

AR-C section 70 to financial statements is to be taken as a reference to such other financial information.

Vote to Ballot Proposed SSARSs for Public Comment

After discussion and review of revised drafts, J. Beck made a motion, seconded by J. Dillard that the proposed SSARS *Compilation of Prospective Financial Information* be balloted for public exposure. The motion passed unanimously.

After discussion and review of revised drafts, J. Dillard made a motion, seconded by J. Beck that the ARSC withdraw its November 2013 vote to expose the proposed SSARS *Compilation of Pro Forma Financial Information* for public comment. The motion passed unanimously. J. Dillard then made a second motion, seconded by K. Hunter, that the proposed revised SSARS *Compilation of Pro Forma Financial Information* be balloted for public exposure. The motion passed unanimously.

After discussion and review of revised drafts, J. Dillard made a motion, seconded by A. Dunn that the proposed SSARS *Omnibus Statement on Standards for Accounting and Review Services – 2016* be balloted for public exposure. The motion passed unanimously.

M. Glynn stated that he would send the ballot drafts to the ARSC on October 30, 2015 and requested that the signed ballots be returned by November 6, 2015. The exposure draft should then be issued by early December 2015.

Exposure Period

The ARSC directed that the exposure draft of the proposed SSARS have a comment period end of May 6, 2016. The exposure period will ensure that the profession has an opportunity to comment after the end of the traditional busier time of year. The ARSC would then consider comments received at its meeting in May 2016.

Presentation of AICPA Financial Statement Clearinghouse

Representatives of CPA.com provided the ARSC with a presentation about a new financial clearinghouse solution, Rivio.com. The private company financial information exchange validates CPA firms, and ensures that the most current, unaltered version of financial documents are delivered to key financial stakeholders.

Joint Meeting with TIC

The ARSC met with the Technical Issues Committee and discussed items of mutual interest including:

- SSARS 21 implementation – including a discussion of the PCPS SSARS 21 Toolkit that is expected to be issued in December 2015.
- ARSC post-clarity activities

- Preliminary TIC thoughts on the proposed SSARS *Compilation of Prospective Financial Information, Compilation of Pro Forma Financial Information, and Omnibus SSARS – 2016*.
- Going concern considerations in review and compilation engagements.

Liaison with the Alabama Society of CPAs A&A Committee

The ARSC met with representatives of the Alabama Society of CPAs A&A Committee and discussed implementation issues with respect to SSARS 21.

Wrap-up

The next in-person meeting of the ARSC will be January 5-7, 2015 in Sarasota, FL. At that meeting, the ARSC will hold an orientation session for all new members and discuss the disposition of the interpretations of SSARSs and AR sections not included in SSARS 21 or the proposed SSARS *Compilation of Pro Forma Financial Information*.

The ARSC also scheduled the following meetings for 2016 (the specifics of the meeting agendas for these meetings will be determined at a later date):

- May 17-19 – Anaheim, CA
- August 9-10 – Asheville, NC
- November 15-16 – San Antonio, TX