Accounting and Review Services Committee
Meeting Highlights
May 10-12, 2011

Committee members present:
Carolyn McNerney, Chair
Chad Becnel
Michael Brand
Gerald Burns
Jeffrey Lewis
Chas McElroy
James Smith

AICPA staff present:
Mike Glynn – Senior Technical Manager – Audit & Attest Standards; Staff Liaison – Accounting and Review Services Committee
Amy Habres – Technical Manager – CPE Product Development (May 10-11, 2011 only)
Chuck Landes – Vice President of Professional Standards
Richard Miller – General Counsel (May 10-11, 2011 only)
Dennis Ridge – Technical Manager – Accounting and Auditing Publications (May 10-11, 2011 only)
Linda Volkert – Staff Liaison – PCPS Technical Issues Committee

AICPA staff present via conference call:
Ellen Goria – Senior Manager – Independence & Special Projects, Professional Ethics (for agenda item 2 only)
Lisa Snyder – Director, Professional Ethics Division (for agenda item 2 only)

Guests present via conference call:
Laura Billingsley - Practitioners Publishing Company

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met on May 10-12, 2011 in Orlando, FL. The following issues were discussed:

Agenda item #1 - Welcome and overview of meeting objectives
D. Ridge thanked the ARSC members for reviewing the draft 2011 Compilation and Review Guide during the traditional busier season. D. Ridge advised that the proposed new chapter dealing with reporting on comparative financial statements was not included in the final Guide as certain ARSC members and AICPA staff expressed concern that the standard level guidance had not been scrutinized through the SSARS 19 process. That guidance will receive the appropriate level of scrutiny during the SSARSs clarity project. The illustrative compilation reports on comparative financial statements were retained and included in the appropriate sections of the Guide. D. Ridge stated that the Guide is anticipated to be available in electronic format in mid-May 2011 (approximately May 24, 2011). The print version of the Guide is anticipated to be available during the period June 15 – June 20, 2011. D. Ridge stated that the AICPA Publications Team will revise
the timeline for the 2012 Guide so that the ARSC review does not fall during the traditional busier season.

D. Ridge also stated that he has commenced work on the 2012 Compilation and Review Alert.

C. McNerney advised the ARSC members that the ARSC’s comment letter on the proposed International Standard on Review Engagements 2400 would be submitted on or before the comment end date of May 20, 2011. A recent draft of that comment letter included a comment regarding materiality in a review engagement and questioned whether it was appropriate for the ISRE to include a requirement that the practitioner calculate materiality. C. McNerney asked the ARSC members how they handle materiality in a review engagement in their individual practices. Specifically, C. McNerney asked whether the ARSC members calculated materiality for a review engagement in a manner similar to what is done in an audit engagement. J. Smith responded by stating that his firm does not calculate materiality since there generally is no substantive testing in a review engagement. With respect to adjustments, both J. Smith and C. McElroy stated that materiality is not an issue as generally review clients accept all proposed adjusting journal entries and that it is unlikely that the accountant would propose an immaterial adjusting journal entry given the high level nature of review procedures. M. Brand stated that in his experience as a peer reviewer, he has seen some practitioners calculate materiality in a review engagement in a manner similar to that performed in an audit engagement. M. Brand stated that many practitioners would argue that such a calculation assists less experienced staff members understand the materiality concept. J. Lewis stated that his firm generally starts with a materiality calculation but, does not require it. C. Landes questioned how an accountant could perform an analytical procedure without a materiality concept. The ARSC concluded that a comment with respect to the calculation of materiality should not be included in the comment letter on the proposed ISRE 2400. However, the ARSC will consider the issue as part of its international convergence considerations once the ISRE is finalized.

The ARSC voted to approve the highlights of the November 2-4, 2010 meeting as presented.

Agenda Item #2 – Discussion of the proposed PEEC Omnibus standard

E. Goria and L. Snyder joined the ARSC meeting via conference call for the discussion.

E. Goria and L. Snyder reiterated that it is the PEEC’s intent that the proposed revisions to Ethics Interpretation 101-3, Performance of Nonattest Services are a clarification of the existing rules.

The ARSC members raised some concerns regarding the PEEC’s intended clarification of the difference between performing bookkeeping services (a nonattest service covered by Interpretation 101-3) and performing activities that are considered part of the attest engagement. The proposed revision is as follows:
Activities Related to Attest Services
Performing attest services often involves discussions between the member and client management which may involve (a) the client’s selection and application of accounting standards or policies and financial statement disclosure requirements; (b) the appropriateness of the client’s methods used in determining the accounting and financial reporting; (c) proposing adjusting journal entries for client management consideration; and (d) making suggestions about the form or content of the financial statements. These discussions are considered a normal part of the attest engagement and would not constitute performing a nonattest service subject to this interpretation. However the member should exercise judgment to determine whether the member’s involvement has become so extensive as to constitute nonattest services (for example, bookkeeping) subject to this interpretation.

The ARSC members recognized that the final sentence in the proposed revision is similar to the concept that the ARSC explored including in the proposed nonindependent review standard. At that time, the ARSC members felt that the accountant could perform so many internal control services for the client that the financial statements became the accountant’s – and thus the issuance of a nonindependent review report would not be appropriate. However, R. Miller advised that the PEEC may be overstepping its authority in trying to determine when attest services would creep over to nonattest services.

In addition, the ARSC raised concerns regarding the proposed “cleansing requirement” which reads as follows:

A member’s independence would not be impaired when a member performed nonattest services prior to the period of the professional engagement that would have impaired independence because the nonattest services were performed during the period covered by the financial statements, provided

a. the services do not constitute a management responsibility,

b. the services relate solely to financial statements of the prior period, and

c. those financial statements were audited by another firm (or in the case of a review engagement, reviewed or audited by another firm).

L. Snyder advised the ARSC that the concept came from the SEC. The ARSC members stated that the lead in language needs clarification since, as currently written, it is unclear as to what the requirement addresses. In addition, the ARSC members communicated that they believe that bullet (a) should be deleted.

The ARSC members concluded that it would not be appropriate for one senior standard setting committee to send a formal comment letter to another senior standard setting committee. However, the ARSC members advised E. Goria and L. Snyder that they would compile some observations and concerns with respect to the proposed
interpretation and would communicate those to the PEEC Task Force that is working on revising the literature.

**Agenda Item #3 – Proposed SSARS, The Use of the Accountant’s Name in a Document or Communication Containing Unaudited Financial Statements That Have Not Been Compiled or Reviewed**

M. Glynn led a discussion of the comment letters received as a result of the exposure of the proposed SSARS, *The Use of the Accountant’s Name in a Document or Communication Containing Unaudited Financial Statements That Have Not Been Compiled or Reviewed*. Seven comment letters were received.

C. Landes reminded the ARSC that it was addressing the issue due to the Auditing Standards Board determining to withdraw AU section 504, *Association With Financial Statements*. C. Landes stated that the proposed SSARS does not define when the accountant is associated with financial statements. Paragraph .03 of AU section 504 reads:

> .03 An accountant is associated with financial statements when he has consented to the use of his name in a report, document, or written communication containing the statements. Also, when an accountant submits to his client or others financial statements that he has prepared or assisted in preparing, he is deemed to be associated even though the accountant does not append his name to the statements. Although the accountant may participate in the preparation of financial statements, the statements are representations of management, and the fairness of their presentation in conformity with generally accepted accounting principles is management's responsibility.

However, this section does not apply to data, such as tax returns, prepared solely for submission to taxing authorities.

C. Landes stated that the issue of consent as addressed in AU section 504 deals with consent from an SEC perspective. Since the SSARSs are not applicable to public company engagements, the proposed SSARS does not need to address consent. Instead, the ARSC needs to address the issue of submission of financial statements that the accountant has assisted in preparing – since submission of financial statements that the accountant has prepared would fall into the compilation standards.

After discussion, the ARSC concluded that the applicability of the proposed SSARS would vary based on how the ARSC concludes as to engagement driven compilation standards (see discussion under Agenda Item #4 below). Therefore, it was determined that a final determination as to whether the proposed SSARS should be issued as a final standard would be delayed until a decision was made regarding the concept of engagement driven compilation standards.

**Agenda Item #4 – Proposed clarified SSARS, Compilation of Financial Statements Submission of Financial Statements**
C. Becnel lead a discussion of the ARSC’s consideration of the pros and cons of revising the compilation standards so that the accountant would not compile financial statements unless engaged to do so. Currently, an accountant is required to comply with the compilation standards whenever he or she submits financial statements to a client or to third parties.

C. Becnel stated that the bottom line is that the number of compilation engagements would decrease as accountants would not be required to follow the compilation standards unless the client engaged the accountant to issue a compilation report. Most engagements in which the financial statements are not expected to be used by a third party would no longer be compilation engagements and many engagements in which the accountant prepares and presents financial statements as a by-product of a bookkeeping engagement would also no longer require the accountant to comply with the compilation standards.

C. McElroy stated that he feels that there would be some concern by state boards of accountancy as many state boards require that management use only compilations be included in the population for peer review and if an accountant/firm only provides such services, then that accountant/firm would be subject to peer review. If the SSARSs were revised so that the compilation standards were engagement driven, it may require certain states to revise regulations. C. McElroy suggested that before the ARSC invest significant time in considering the issue that the Committee makes sure that the National State Boards of Accountancy (NASBA) and the AICPA Peer Review Committee don’t object to the consideration.

C. Landes stated that the ARSC needs to make sure that whatever it does is in the public interest.

The ARSC determined that a discussion paper should be prepared that would outline the pros and cons of engagement driven compilation standards. That paper would be sent to interested parties and AICPA committees to facilitate obtaining additional views on the issue. Preliminarily, the ARSC mentioned the following:

Cons:
- Concerns over users understanding the accountant’s involvement/association with financial statements that he or she submitted but was not engaged to compile
- Practitioners are used to the submission driven compilation SSARSs
- Possible decrease in the number of engagements subject to peer review

Pros:
- Convergence with international compilation literature
- Convergence with auditing, SSARSs review, and SSARSs compilation of specified elements and pro forma financial information.
- Proliferation of accounting software has resulted in it being more difficult to determine who prepared and presented financial statements.
- Since SSARS No. 1 was issued in 1978, submission has become less of an issue for practitioners and users.
M. Glynn stated that he would speak to AICPA staff that liaises with NASBA and with the Peer Review Board and report back to the ARSC. J. Smith stated that he would speak to certain contacts that he has at NASBA and would likewise report back to the ARSC.

**Communications With Predecessor Accountant**

C. Becnel advised the ARSC that the Clarity Task Force proposes that the requirements in AR section 400, *Communications Between Predecessor and Successor Accountants* need not be retained in the clarified compilation standard since, in practice, successor accountants rarely communicate with predecessor accountants in the acceptance of a compilation engagement. Instead, the Clarity Task Force proposes that the clarified compilation standard state that the accountant is not required to communicate with a predecessor accountant in connection with acceptance of a compilation engagement, but that he or she may believe it is beneficial to obtain information that will assist in determining whether to accept the engagement. All other requirements and guidance in AR section 400 would not be retained in the clarified compilation standard.

The ARSC agreed with the Clarity Task Force’s determination but stated that the requirements and guidance in AR section 400 should be considered separately with respect to the proposed clarified review standard.

**Management’s Responsibilities**

C. McElroy stated that since the issuance of SSARS No. 19, some have argued that it is possible for the accountant to accept an engagement whereby management outsources its responsibility for the preparation and fair presentation of the financial statements to the accountant. Others have argued that although the accountant can accept an engagement where he or she prepares the financial statements in accordance with the applicable financial reporting framework, the responsibility for the preparation and fair presentation of those financial statements always rests with management. In the outsourcing scenario, the accountant is merely performing a mechanical function and management exercised its responsibility by outsourcing the mechanics.

J. Smith stated that in the scenario where the accountant accepts responsibility for the preparation and fair presentation of the financial statements, the accountant has accepted a management responsibility. C. Landes reminded the ARSC of its previous conclusion that there should be no reporting differences between an accountant who acts as an independent contractor and an accountant who is an employee of the entity. If the accountant performs the same functions, it should not matter how they are classified. The ARSC may want to challenge the guidance in Interpretation No. 8 to AR section 80 which states that if the accountant is in the practice of public accounting and is not a stockholder, partner, director, officer, or employee of the entity then the accountant is required to follow the SSARSs whenever he or she submits financial statements. Perhaps the ARSC would prefer a convention that states that if the accountant accepts responsibility for the financial statements, the accountant is not in SSARSs.
The ARSC agreed that it would continue to consider the issue as it considers the clarified compilation standard.

**Requirement to read the financial statements**

C. Becnel stated that the Clarity Task Force proposes to revise the requirement that the accountant read the financial statements from a presumptively mandatory requirement to an unconditional requirement. The ARSC agreed with the Task Force’s proposal and concluded that the requirement should state that the accountant must read the financial statements and consider whether such financial statements appear to be appropriate in form and free from obvious material errors.

**Documentation in a compilation engagement**

C. Becnel stated that the Clarity Task Force proposes that, in addition to the documentation requirements in extant AR section 80, the accountant’s documentation in a compilation engagement should also include the compiled financial statements and the accountant’s compilation report. C. Becnel stated that the requirement is consistent with the proposed requirement in the exposure draft of the proposed International Standard on Related Services (Redrafted), *Compilation Engagements*. The ARSC agreed with the Task Force’s proposal.

**Accountant’s compilation report on financial statements prepared in accordance with an OCBOA**

M. Brand walked the ARSC through the proposed reporting requirements when compiled financial statements are prepared in accordance with an OCBOA. The proposed requirements include:

- A requirement for the accountant to **consider** whether the financial statements are suitably titled, include a summary of significant accounting policies, and adequately describe how the OCBOA differs from GAAP.

- A requirement for the accountant to **consider** whether the financial statements include informative disclosures when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.

- A requirement that the compilation report include a statement in the section “Management’s Responsibility for the Financial Statements” that states that management is responsible for determining that the OCBOA is acceptable in the circumstances (when management has a choice of frameworks).

- A requirement that the compilation report include an emphasis-of-matter paragraph that indicates that the OCBOA is a basis of accounting other than GAAP (this was a pre-SSARS 19 requirement that several members have questioned whether it should be reinstated).
The ARSC agreed with the proposed reporting requirements. However, the ARSC asked the Task Force to consider revising the “should consider” requirements as it questioned how an accountant would document a consideration.

**Special Reporting Issues**

J. Smith walked the ARSC through the draft SSARS with respect to certain special reporting situations. Those situations included:

- Special-purpose financial statements to comply with contractual agreements or regulatory provisions
- Reporting on financial statements included in certain prescribed forms.

The ARSC concluded that while these issues are important and should be addressed, that the guidance would more appropriately be included in the Compilation and Review Guide.

**Disclosure of departures from the applicable financial reporting framework in the accountant’s compilation report**

J. Lewis advised the ARSC that the proposed clarified compilation SSARS includes a requirement that departures from the applicable financial reporting framework be disclosed in the accountant’s compilation report in a separate section entitled “Known Departure From [the applicable financial reporting framework]”. The ARSC agreed with the proposed treatment of known departures from the applicable financial reporting framework in the accountant’s compilation report.

**Wrap-up**

The next meeting of the ARSC will be August 23-25, 2011 in Chicago, IL. With respect to that meeting, the ARSC stated that the agenda should include:

- A revised draft of the proposed clarified compilation SSARS. The draft should be prepared assuming that the compilation standards will remain submission driven.
- A first read draft of the proposed clarified review SSARS.