

**Accounting and Review Services Committee
Meeting Highlights
August 9-11, 2016**

Committee members present:

Mike Fleming, Chair
Denny Ard
Sheila Balzer
Jimmy Burkes (via teleconference)
Jeremy Dillard
Aron Dunn
Kelly Hunter

AICPA staff present:

Ellen Gorla – Senior Manager, Independence & Special Projects, Professional Ethics Division (via teleconference - during Independence Issues discussion only)
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 (August 9-10 only)
Richard Miller – Special Counsel (via teleconference on August 9; in-person on August 10-11)
Linda Volkert - Staff Liaison to the PCPS Technical Issues Committee, Firm Services and Global Alliances Team, Center for Plain English Accounting

Observers:

Laura Billingsley – Practitioners Publishing Company
Nigyar Mamedova – National Association of State Boards of Accountancy (NASBA), Director – Technical Research (August 9-10 only)
Paul Penler – Member, Specified Procedures Task Force (via teleconference - August 10 only)
Stan Sterna – Aon, Vice President – Professional Firms
Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing Loss Prevention Specialist

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met August 9-11, 2016 in Asheville, NC. The following issues were discussed:

Welcome and overview of meeting objectives

Chair’s Report

M. Fleming welcomed the ARSC members, AICPA staff, and observers to the meeting and stated that the ARSC will consider voting to issue the proposed SSARS *Omnibus Statement on Standards for Accounting and Services – 2016* as a final standard. The Omnibus - 2016 document includes the proposed revisions to SSARSs necessary to incorporate preparation and compilation of prospective financial information to the SSARSs literature. The ARSC will also review a revised draft of the proposed SSAE on

specified procedures and provide feedback to the task force drafting the proposed standard.

M. Fleming acknowledged that the ARSC members have been very active on task forces and other AICPA projects. A. Dunn has been working with the ASB's Going Concern Task Force; S. Balzer has been working with the AICPA's Assurance Research Advisory Group (ARAG); and D. Ard is Chair and J. Dillard is a member of the Specified Procedures Task Force.

M. Fleming stated that in July, he, M. Glynn, Mike Brand (member of PEEC and immediate past Chair of ARSC), and Mike Westervelt (Chair of the AICPA's Technical Issues Committee) taped a webcast during which the panel discussed SSARS 21 implementation issues and real-life scenarios and solutions. That webcast was broadcast in late July and will be rebroadcast several times with M. Glynn answering live answering questions submitted by participants.

Additionally, at the NAAATS conference, Erik Asgeirson from cpa.com taped a series of 15 minute interviews with various people associated with SSARSs standard setting. The interviews will be posted to RIVIO for the purpose of educating users as to services CPAs can provide. The intent is to describe what each service provides and does not provide; the key value for users of the subject matter; and the value of a CPA performing the service. The interviewees and topics were as follows:

- M. Fleming – preparation services
- Mike Brand – compilations
- J. Dillard – reviews
- Carol McNerney (past ARSC Chair and past ASB member) – audits

In addition, Jim Brackens (AICPA Vice President – Ethics and Practice Quality) was interviewed on the value of peer review.

S. Balzer stated that the ARAG met in June 2016 and considered several potential topics for inclusion in the ARAG Request for Proposals. Four separate topics were approved for inclusion:

- Audit Quality – including “what motivates firms to do good work”
- Risk assessment
- Audit documentation
- Limited assurance – including divergence in practice regarding work effort in a review engagement

S. Balzer stated that each proposal received will be reviewed by two members of ARAG (one practitioner and one academic) and the highest rated proposals will be presented to the ARAG at its meeting in December.

M. Fleming advised the ARSC that the meeting represents the last ARSC meeting that L. Volkert will attend as she is retiring from the AICPA in October. The ARSC members congratulated L. Volkert on her retirement and wished her luck.

Director's Report

C. Landes reported that in June the AICPA and CIMA membership separately approved the creation of a new association. The new association will focus on management and public accountants but preserves the AICPA and CIMA membership bodies. Currently AICPA and CIMA senior management teams are working together to revise and update roles and responsibilities. It is expected that there will be one united team by early September. The association will transition to one single organization with most operations in place by January 1, 2017. C. Landes stated that he feels that this is a very positive step with respect to providing resources to members in public practice.

C. Landes stated that the ASB met August 1-4, 2016 in Milwaukee. At the meeting, an update was provided with respect to the development of the Audit Data Analytics Guide. A joint ASB and Assurance Services Executive Committee working group was formed to develop the new guide – which will supersede the current analytical procedures guide. The new guide is expected to include a separate chapter on analytical procedures and will help practitioners better use data, both internal and external, to increase audit efficiency. The guide will have applicability to review engagements but it is anticipated to be more applicable to audit engagements. ASB review of the draft guide is scheduled for January 2017 and the guide is expected to be issued in the spring of 2017.

The ASB also discussed issues with respect to cybersecurity. A guide being developed by the Assurance Services Executive Committee will include criteria based on the COSO framework.

The ASB also discussed issues with respect to a proposed attestation standard that would enable practitioners to report on an examination or review engagement under the attestation standards without having to request a written assertion from the responsible party (direct engagements). The ASB also discussed issues and reviewed a draft standard with respect to specified procedures. That project will be discussed during the ARSC meeting.

The ASB discussed certain elements of the auditor's report relating to ASB's convergence with the International Auditing and Assurance Standards Board (IAASB) International Standards on Auditing (ISA) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* and the proposed way forward on guidance for the communication of key audit matters. C. Landes stated that the most obvious revision to the report is that the auditor's opinion would be first. In addition, management and auditor responsibilities are expanded to enhance transparency and clarify responsibilities. There are new sections dealing with voluntary disclosure of key audit matters, going concern, and other information. Disclosure of key audit matters is expected for companies that are planning on going public as well as certain not-for-profits who may have public company executives on their boards of directors.

Related, the ASB considered a draft of a proposed standard that addresses special considerations in the application of generally accepted auditing standards when auditing employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), including the form and content of the auditor's report for such audits. There would be a requirement to report on compliance in a by-product report and perform certain additional specified procedures. While the ASB felt comfortable with continuing to permit the performance of a limited scope audit, the required report would move away from a disclaimer and more towards a qualified opinion.

The ASB also resumed discussion of issues with respect to the project to revise AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*. The proposed standard uses ISA 720 (Revised) as a base.

With respect to the IAASB, C. Landes stated that the IAASB is currently working on five projects:

- Quality control
- Group audits
- Professional skepticism
- Auditing estimates
- Risk assessment

In response to a question from M. Fleming, C. Landes stated the risk assessment project revolves around auditor response to significant risks. Additionally, there continues to be questions concerning the need for the auditor to understand controls and a peer review issue with respect to whether control risk and inherent risk can be assessed together or separately.

Independence Issues

E. Goria presented an issue that the AICPA Professional Ethics Executive Committee (PEEC) had identified and requested ARSC feedback on. The issue involves instances in which a non-CPA firm is engaged to prepare financial statements and a CPA in public practice is involved in the engagement. The PEEC is requesting that the ARSC advise as to whether such CPAs in public practice who prepare financial statements are required to adhere to AR-C section 70.

While acknowledging that the determination as to whether a CPA employed at the non-CPA firm is in public practice is the responsibility of the PEEC, in response to a direct request for feedback from E. Goria, the ARSC stated that it did not disagree with the PEEC's determination that such CPA is in public practice. E. Goria stated that it was not the PEEC's intent that non-CPA firms be considered in public practice and asked whether the ARSC felt that the individual or the firm was engaged to perform the engagement. The ARSC advised that which entity (the firm or the individual) was engaged is an issue for the PEEC to address. The ARSC stated that this is not a new issue as non-CPA firms have traditionally prepared financial statements and the issue in the past would have been whether a compilation requirement was triggered.

The ARSC did note that there have been questions as to what “engaged” means. Some ARSC members stated that they had heard from CPAs who believed that they could avoid SSARSs simply by not obtaining an engagement letter. The ARSC directed that clarifying guidance be provided in the 2016/17 edition of the AICPA Alert *Developments in Preparation, Compilation, and Review Engagements* stating that being engaged is the start of the engagement process and obtaining a signed engagement letter or other suitable form of written agreement is the initial required engagement procedure.

E. Gorla further pointed to a Council resolution that read as follows (*emphasis added*):

- C. RESOLVED: That with respect to a *member* engaged in *public practice* in a *firm* or organization which is not within the description of a *firm* or organization set forth in paragraph A above, ***but who performs compilations of financial statements performed in accordance with the Statements on Standards for Accounting and Review Services***, the characteristics of such a *firm* or organization under the “Form of Organization and Name Rule” of the Code are as set forth below.
1. There must be a CPA who has ultimate responsibility for any *financial statement* compilation services provided by the *firm* and by each business unit performing such compilation services and non-CPA owners could not assume ultimate responsibility for any such services.
 2. Any compilation report must be signed individually by a CPA, and may not be signed in the name of the *firm* or organization.

M. Fleming stated that the Council resolution should be amended to include financial statement preparation services. E. Gorla advised that she would bring the issue to PEEC and ask that the PEEC consider bringing the issue to the attention of Council.

Compilation of Prospective Financial Information/Omnibus - 2016

M. Fleming presented the agenda materials and advised that the objective was to discuss the proposed SSARS *Omnibus-2016* and to consider voting to issue as a final SSARS.

References to “financial statements” in SSARSs

M. Fleming advised that the proposed SSARS includes application paragraphs .A1 to AR-C sections 60, 70, and 80 that states that references to *financial statements* are to be taken as references to other financial information if the engagement involves subject matter other than historical financial statements. Paragraph .A1 to AR-C section 60 reads as follows (paragraphs .A1 to AR-C sections 70 and 80 are proposed to read substantively similar):

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 this section to *financial statements* are to be taken as references to such other financial information.

Other than a minor edit to refer to “a service in accordance with SSARSs” as opposed to “an engagement in accordance with SSARSs”, the ARSC members agreed with the proposed application guidance to AR-C sections 60, 70, and 80.

Management Responsibilities in SSARSs Engagements

The ARSC considered the proposed revision to paragraph .25c(ii) to AR-C section 60. The ARSC directed that the paragraph be revised so that it states that management acknowledges and understands its responsibility:

- ii. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, ***unless the accountant decides to accept responsibility for such internal control.***

The ARSC further directed that additional guidance be included in the 2017 edition of the AICPA Guide *Preparation, Compilation, and Review Engagements* including a reminder to accountants that taking responsibility for internal control would result in an impairment of the accountant’s independence.

Overall consideration of the draft SSARS

The ARSC reviewed the draft SSARS and directed that certain edits be made. The significant edits were as follows:

- Directed that, to increase the readability and clarity of the changes to SSARSs, entire sections in which there is a revision should be shown – as opposed to only those paragraphs that are amended.
- Directed that the following paragraph be added to AR-C section 60:

.17 If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.

The paragraph was inadvertently omitted from AR-C section 60 when AR section 60 was clarified. It was included in AR-C section 70.

- Directed that language such as the following from paragraph .14 of AT section 301 be included in AR-C section 80:
.14 The summary of significant assumptions is essential to the reader's understanding of prospective financial statements. Accordingly, the practitioner should not compile prospective financial statements that exclude disclosure of the summary of significant assumptions. Also, the practitioner should not compile 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.

- Directed that a reporting requirement be included in AR-C section 80, as follows:

.25 In addition to the reporting elements required by paragraph .17, an accountant's compilation report on prospective financial information should include statements that

- a. the forecasted or projected results may not be achieved and***
- b. the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report.***

After the discussion, J. Dillard made a motion which was seconded by K. Hunter, to ballot to issue the proposed standard *Omnibus – 2016* as a final SSARS. The motion passed unanimously.

The ARSC determined, however, that the SSARS should not be issued until the ARSC has an opportunity to consider comment letters received on the proposed SSARS dealing with supplementary information – which is currently in public exposure. The ARSC may determine to include the amendments to SSARSs proposed in that exposure draft as part of *Omnibus – 2016*.

Specified Procedures

D. Ard presented the agenda materials and advised that the objective was to review and obtain feedback from the ARSC on issues related to a revised draft of a proposed standard dealing with engagements to perform specified procedures.

Applicability of the Standard

Mr. Ard stated that to clarify when the standard would not apply, the Task Force felt it was necessary to identify situations in which the standard should not be applied.

After discussion, the ARSC directed that paragraph X.1 should be revised to read as follows:

X.1 This proposed standard applies to engagements in which a CPA in the practice of public accounting is engaged to issue, or does issue, a practitioner's specified procedures report on subject matter. In an engagement performed in accordance with this section, the practitioner does not perform an examination or a review and does not provide an opinion or conclusion. In addition, a specified procedures engagement is not an agreed-upon procedures engagement. The practitioner's report on specified procedures is in the form of procedures performed and findings. The report may be intended for a broad range of users and is not required to be restricted as to use.

In addition, application guidance should be included that makes clear that nothing precludes a practitioner from performing a specified procedures engagement and an agreed-upon procedures engagement on the same subject matter.

The ARSC members discussed when a practitioner would perform an agreed-upon procedures versus a specified procedures engagement. The ARSC concluded that since both services are engagement driven, a table or other description of the differences or any kind of decision tree need not be prepared. The primary differences that practitioners need to keep in mind is the requirement to obtain an assertion and the requirement to restrict the use of the report in an agreed-upon procedures engagement.

Responsibility for the Sufficiency of the Procedures

Mr. Ard stated that the Task Force drafted the proposed standard such that there would be no requirement for any party to accept responsibility for the sufficiency of the procedures.

The ARSC agreed that the standard should appropriately state that the procedures may be developed and determined to be appropriate by the practitioner, the engaging party, or another party and that no particular party is required to assume responsibility for the sufficiency of the procedures.

Independence

The ARSC directed that the Professional Ethics Executive Committee be requested to consider whether independence interpretation 1.297.020 on agreed-upon procedures engagements would be expected to be extended to the proposed specified procedures service.

Engagement Letter

The ARSC directed that the agreed-upon terms of the engagement should not include the expected form and content of the practitioner's report.

Alert That Restricts the Use of the Practitioner's Specified Procedures Report

The ARSC directed that the standard should not include requirements with respect to restricted use reporting and instead should include application guidance that reminds practitioners that they are not precluded from restricting the use of any report.

Next Steps

Mr. Ard stated that the Task Force will plan to present a revised draft of the proposed standard to the ARSC at its November 2016 meeting. While the Task Force may ask the ASB to vote to expose the proposed standard for public comment at the November 2016, it is more likely that such a vote would be requested for the January 2017 meeting.

Reference to the Work of Other Accountants in an Accountant's Review Report and International Reporting Issues

The ARSC deferred discussion on the topic until its meeting in November 2016.

Wrap-up

The ARSC determined to hold a conference call meeting on Friday, September 9, 2016 in order to consider comment letters received on the proposed SSARS dealing with supplementary information and to consider voting to ballot to issue the revised requirements and guidance as part of the *Omnibus-2016* SSARS.

The next in-person meeting of the ARSC will be November 15-17, 2016 in San Antonio TX. At that meeting, the ARSC expects to:

- Consider a revised draft of the proposed SSAE *Specified Procedures* and potentially consider voting to expose such proposed SSAE for public comment.
- Consider voting to ballot to issue the proposed SSARS addressing reference to the work of other accountants in an accountant's review report and international reporting issues.

Dates and locations for subsequent ARSC meetings are as follows (specifics of the meeting agendas for these meetings will be determined at a later date):

- January 17-19, 2017 – Key West, FL
- May 9-11, 2017 – Indianapolis, IN
- August 15-17, 2017 – Boston, MA