

**Accounting and Review Services Committee
Meeting Highlights
November 15-17, 2016**

Committee members present:

Mike Fleming, Chair
Denny Ard
Sheila Balzer
Jimmy Burkes
Jeremy Dillard (afternoon of November 15 through to the end of the meeting)
Aron Dunn
Kelly Hunter

AICPA staff present:

Mike Glynn – Senior Technical Manager, Audit & Attest Standards; Staff Liaison – Accounting and Review Services Committee
Kristy Illuzzi – Staff Liaison to PCPS Technical Issues Committee, Firm Services and Global Alliances Team (afternoon of November 16 only)
Chuck Landes – Vice President, Professional Standards
Carl Peterson – Vice President, Small Firm Interests, Firm Services & Global Alliances (November 15-16 only)
Richard Miller – Special Counsel (via teleconference on November 17; in-person on November 15-16)
Weiwei Tang – Technical Manager, Accounting & Auditing Content Development

Observers:

Laura Billingsley – Practitioners Publishing Company
Nigyar Mamedova – National Association of State Boards of Accountancy (NASBA), Director – Technical Research (November 15-16 only)
Marne Doman – Member, Specified Procedures Task Force (via teleconference – Specified Procedures discussion only)
Stan Sterna – Aon, Vice President – Professional Firms
Duncan Will – CAMICO Insurance Loss Prevention Manager, Accounting & Auditing Loss Prevention Specialist (November 15 and morning of November 16 only)

The Accounting and Review Services Committee (the “ARSC” or the “Committee”) met November 15-17, 2016 in San Antonio, TX. 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 review a revised draft of the proposed SSAE, *Specified Procedures*; consider voting to expose for public comment a proposed SSARS addressing referencing the work of other accountants in an accountant’s review report and international reporting issues; consider whether additional guidance is needed post-

issuance of SSARS 21 and SSARS 23; and liaise with the AICPA Technical Issues Committee (TIC).

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 D. Ard presented a draft of the proposed SSAE, *Specified Procedures* to the ASB at its meeting in October 2016.

M. Fleming stated that he and M. Glynn participated in a meeting of the Chairs of AICPA Committees and staff liaisons at the AICPA office in New York on October 11, 2016. In addition to the ARSC, the Chairs and staff liaisons of the Auditing Standards Board, Peer Review Board, Professional Ethics Executive Committee, Assurance Services Executive Committee, and Technical Issues Committee were present at the meeting. The purpose of the meeting was to promote collaboration and coordination among the various committees and M. Fleming felt that it was very productive. The group will meet again in October 2017.

M. Fleming stated that, on November 1, 2016, the Chairs of all of the volunteer committees participated in a conference call with Barry Melancon, AICPA CEO. The agenda of the call emphasized the new association (which is effective on January 1, 2017); the future of auditing including data analytics, cybersecurity, and audit quality.

Since the ARSC last met, the 2016/17 Risk Alert, *Developments in Preparation, Compilation, and Review Engagements* and SSARSs Nos. 22 and 23 have been issued. The liaison meeting with the TIC will include discussion on the implementation of SSARS 23.

M. Fleming stated that the Center for Plain English Accounting has received a couple of questions as to why the recently issued SSARS 23 revisions to the accountant's reporting responsibilities when supplementary information accompanies reviewed financial statements and the accountant's review report thereon were made effective upon issuance. The ARSC reiterated that the revisions were solely a necessary technical correction and therefore, it was appropriate that such changes be effective upon issuance of SSARS 23.

R. Miller presented the ARSC members with literature with respect to RIVIO – the private company clearinghouse. R. Miller explained RIVIO and its benefits to the ARSC members.

M. Fleming advised the ARSC that the meeting marks the final ARSC meeting for A. Dunn and K. Hunter. M. Fleming thanked A. Dunn and K. Hunter for their dedication and service to the ARSC and to the profession. A. Dunn and K. Hunter were presented with plaques commemorating their service and the ARSC provided a round of applause in appreciation.

Independence Issues Discussed With PEEC

M. Glynn stated that he participated in the PEEC's November 4, 2016 meeting via teleconference. M. Glynn advised the PEEC that two ARSC projects had raised independence issues that the ARSC was requesting PEEC clarification on.

The first issue is with respect to independence and compilation of pro forma financial information. The AICPA Code of Professional Conduct provides that in an engagement performed in accordance with the SSAEs, the engagement team needs to be independent with respect only to "responsible parties". Since the "exemption" does not run to engagements performed in accordance with the SSARs, a CPA who performs an examination or review of pro forma financial information has a lower independence requirement than a CPA engaged to perform a compilation of pro forma financial information. The PEEC advised M. Glynn that the committee is working on an exposure draft of a proposed standard on the definition of *attest client*. If passed as a final standard, the CPA would be required to be independent of only the *target entity* for all examinations, reviews, and compilations of pro forma financial information.

The second issue is with respect to independence and the proposed specified procedures standard. M. Glynn advised the PEEC that the ARSC and the ASB are requesting guidance as to whether the PEEC anticipates that the independence requirements with respect to agreed-upon procedures engagements would run to the proposed service. The PEEC stated that they are establishing a Task Force to consider convergence issues and that this issue would be considered as part of that project. In addition, former ARSC Chair Mike Brand is now on the PEEC and will serve as a liaison between M. Glynn/ARSC/ASB and the PEEC and will keep M. Glynn and M. Fleming informed of the PEEC's discussions on the matter.

Director's Report

C. Landes reported that the ASB met in October 2016. The ASB is expected to approve the revised standard on the auditor's consideration of going concern at its meeting in January 2017. The final standard is anticipated to closely resemble the exposure draft of the proposed standard. The ASB has been concerned about how the proposed standard would be applied to an audit of a single financial statement or an element of a financial statement since FASB's position is that GAAP does not apply to single financial statements. C. Landes stated that there is likely to be a carve-out for such audits. However, the proposed standard would apply to audits of financial statements prepared in accordance with a special purpose framework as it always has.

With respect to ERISA reporting, C. Landes reported that a proposed standard would significantly change the reporting for limited scope audits. The proposal is likely to also include a byproduct report on DOL policies and procedures. These procedures will be linked to the financial statement assertions being audited, but nevertheless, may be a significant change in ERISA auditing for some firms. The ASB believes that these changes will improve the quality of such audits. The ASB may consider voting to expose the proposed standard for public comment at its meeting in January 2017 and the

standard may be issued and fully effective for calendar 2018 audits. C. Landes stated that the DOL has been represented at the ASB meetings and has participated in the task force discussions.

With respect to general auditor reporting, the ASB is considering a draft standard proposing revisions to the auditor reporting model. The ASB will substantively adopt the IAASB's reporting model which includes the opinion appearing at the beginning of the report; more explicit discussion of management and auditor responsibilities; and voluntary disclosure of key audit matters. It is anticipated that once the PCAOB issues its revised auditor reporting standard which will include a requirement to disclose critical audit matters that many nonpublic entities will want the auditor to disclose similar key/critical audit matters in their audit report.

The ASB continues to work on its project to develop a standard for non-assertion based examinations and reviews (direct engagements).

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.

Responsibility for the sufficiency of the procedures

D. Ard stated that the ARSC and the ASB had directed that the standard not require the engaging party to accept responsibility for the sufficiency of the procedures performed as the engaging party may not have a basis for making such a determination. Subsequently, 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.

At its meeting in October 2016, certain members of the ASB stated that some party would need to take responsibility for the sufficiency of the procedures while others believed it to be appropriate to make no reference to responsibility for the sufficiency of the procedures. Another thought was that the purpose of the proposal was to create a service in which the practitioner designed and took responsibility for the procedures and that if the engaging party or another party took such responsibility, an agreed-upon procedures engagement would be appropriate. The ASB directed that the proposed standard:

- Make no reference to responsibility for the sufficiency of the procedures but instead be clear that the practitioner determines the procedures, performs the procedures, and reports on the procedures.
- Require that the report identify the purpose of the engagement in a way that does not imply that the practitioner is expressing an opinion or a conclusion on the subject matter.

- Permit the description of the service in the report to include a statement that no party is required to make or provide a written assertion on the subject matter but not permit any reference as to whether the practitioner obtained a written assertion as it is not relevant to include a discussion of an assertion since one is not required in this type of engagement.
- Not include reporting requirements in order to differentiate from an agreed-upon procedures engagement.

After discussion, the ARSC directed that:

- The practitioner be required to document the engaging party's acknowledgment of the procedures performed prior to issuance of the practitioner's report. Such acknowledgement may be included in the engagement letter, an amendment to the engagement letter, in a representation letter, or some other written communication. There should be no requirement with respect to the sufficiency of the procedures – the procedures can be developed by the client, the practitioner, a third party, or any combination.
- The report should describe the objective/purpose of the engagement and the procedures performed. There should not be a requirement that the report state that the procedures performed may not be sufficient for all purposes but such a statement could be included in the illustrative reports. The objective/purpose of the engagement should be described so as not to imply an opinion or a conclusion on the subject matter.
- The report and the engagement letter requirements should be consistent with respect to referring to the “purpose” of the engagement vs. the “objective” of the engagement.
- Illustrative reports be presented that show (a) just the minimum reporting requirements; (b) additional non-required limitations language that could be included in the report based on the practitioner's judgment; and, (c) how to report when specified procedures are applied to elements.

The ARSC acknowledged that there is a risk that if the practitioner determines the procedures to be performed, that the practitioner may be assuming the risk that the procedures are sufficient as to purpose. While the standard should not include any risk aversion guidance, perhaps such guidance could be separately provided as part of the implementation materials developed after issuance of the proposed standard.

Name of the service

D. Ard stated that from the onset the proposed service has been referred to as *specified procedures*. As the project has progressed, the Task Force no longer believes that the name is an accurate description of the service. In addition, the term *specified audit procedures* is used in AU-C section 600, *Special Considerations – Audits of Group*

Financial Statements (Including the Work of Component Auditors) and the term *specified procedures* is used in paragraph .14 of the AT-C Preface to refer to procedures performed in an agreed-upon procedures engagement. The use of the same or similar term may cause confusion. The ASB stated that while the name may change again, the service should be referred to as *selected procedures* in subsequent drafts of the proposed standards. The ARSC stated that it did not object to revising the name of the proposed service to *selected procedures*.

Applicability of the standard – specified procedures vs. agreed-upon procedures

The ARSC directed that while the proposed standard should direct the practitioner to AT-C section 215 if the practitioner is engaged to perform an agreed-upon procedures engagement, the proposed standard should not include significant guidance explaining the differences between a specified procedures and an agreed-upon procedures engagement.

Other information

D. Ard stated that certain ASB members felt that requiring the practitioner to consider other information in a service that results in a general use report makes sense. However, other ASB members felt that considering other information was a risk management issue for the practitioner. The ASB directed that, since there is no criteria for the practitioner to use in determining whether the other information is consistent with the subject matter of the engagement, that the proposed standard should not include requirements with respect to other information.

The ARSC agreed that the proposed standard should not include requirements with respect to other information included in a document that also contains the practitioner's specified procedures report.

Restricted-use reporting

D. Ard stated that the Task Force has deleted the requirements with respect to restricted-use reporting at the ARSC and the ASB's direction. However, the Task Force continued discussions on the issues and believes that the requirements and guidance with respect to restricted use reporting should be retained.

After discussion, the ARSC agreed that the proposed standard should include requirements and guidance with respect to restricted use reporting.

General directives

The ARSC directed that the following requirements/guidance be removed from the proposed standard and moved to the proposed common concepts chapter:

- Agreeing on the terms of the engagement
- Using the work of the practitioner's external specialist
- Using the work of internal auditors or other practitioners

- Subsequently discovered facts

The ARSC also directed that the Task Force further consider whether to require the practitioner to obtain written representations from the engaging party since such a requirement is included in the agreed-upon procedures standard. The ARSC questions why the two standards should not be consistent in this regard.

Next Steps

D. Ard stated that the Task Force will plan to present a revised draft of the proposed standard to both the ASB and the ARSC at its respective meetings in January 2017. Neither committee will be requested to consider voting to expose the proposed standard in January 2017. Instead, it is anticipated that the Task Force will request such votes at the committees' separate meetings in May 2017.

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

M. Glynn presented the agenda materials and advised that the objective was to vote to ballot to expose the proposed *SSARS Amendment to Statement on Standards for Accounting and Review Services No. 21, Section 90, Review of Financial Statements for public comment*.

After discussion, the ARSC concluded that it would not vote to ballot the proposed standard and instead directed that a revised version of the proposal be presented to the ARSC at its meeting in January 2017. That draft should use AU-C section 910 *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country* as a base and show changes in redline to reflect how such a standard would be incorporated in AR-C section 90.

The ARSC also directed that the proposed standard include considerations for compilation engagements and that an appendix addressing differences between a review performed in accordance with AR-C section 90 and ISRE 2400 (Revised) be presented.

The ARSC directed M. Glynn to consult with the TIC and the AICPA Technical Hotline staff as to whether practice questions are being received regarding compilations performed in accordance with both AR-C section 80 and ISRE 4410 (Revised) as well as compilations of financial statements prepared in accordance with a financial reporting framework generally accepted in another country.

Consideration of Additional Guidance for SSARSs Engagements

M. Glynn presented the agenda materials and advised that the objective was to obtain the ARSC's views on proposed additional guidance for preparation, compilation, and review engagements and on other issues that the ARSC may consider appropriate.

Reporting on Consolidating Information

The ARSC directed that illustrative accountant's review reports should be prepared that provide examples of how an accountant may report when:

- Supplementary information is presented as part of the basic financial statements
- Supplementary information is presented separate from the basic financial statements but is subjected to the accountant's procedures performed during the review of the basic financial statements
- Supplementary information is presented separate from the basic financial statements and is not subjected to the accountant's review procedures

The ARSC directed that the illustrative reports should be included in the 2017 edition of the Guide *Preparation, Compilation, and Review Engagements*.

Initial Review Engagements

The ARSC directed that additional guidance be included in the 2017 edition of the Guide with respect to initial review engagements. The guidance included in the 2016/17 Alert *Developments in Preparation, Compilation, and Review Engagements* could be used as basis for the authoritative guidance to be included in the Guide.

Independence and Review Engagements

The ARSC directed that staff consult with the staff of the Professional Ethics Executive Committee and ask the PEEC staff to develop an alert advising accountants as to maintaining independence when performing nonattest services for attest clients.

Materiality in Review Engagements

The ARSC questioned whether there is a need for additional guidance with respect to materiality in review engagements. Such guidance could be developed at a standards level or as part of the Guide.

The ARSC directed that the January 2017 meeting agenda include time to discuss the concept. The ARSC will be asked to consider:

- How the accountant uses materiality in a review engagement.
- How the accountant considers risk in a review engagement.

The ARSC directed that the agenda materials include a summary as to how ISRE 2400 (Revised) addresses these issues as well as to how the issues are addressed by Practitioners Publishing Company in their non-authoritative guidance. The ARSC directed that staff also inquire as to how peer reviewers are considering the issues.

If a project is initiated with respect to these issues, perhaps it would be a joint project with the ASB as the issues would also be relevant to interim reviews performed in accordance with AU-C section 930.

Other Issues

The ARSC also suggested that the following may be useful ARSC projects:

- Documentation of professional judgment in a SSARSs engagement.
- How professional skepticism relates to a review engagement.
- Review engagement quality – this would be a long-term project that would incorporate peer review comments on review engagements. This would perhaps be a project that would include a Task Force comprised of former ARSC Chairs.

Liaison with the AICPA Technical Issues Committee

The ARSC met with the AICPA Technical Issues Committee. The discussion included:

- SSARS 21 implementation issues identified by TIC members. As part of the discussion, the ARSC explained the applicability of AR-C section 70 including the distinction between being “engaged” vs. obtaining an engagement letter.
- Certain practice implications of SSARS 23 with respect to compilations and preparation of prospective financial information.
- The current ARSC agenda including the TIC members’ thoughts on the selected (formerly specified) procedures project.

Wrap-up

The next in-person meeting of the ARSC will be January 17-19, 2017 in Key West, FL. At that meeting, the ARSC expects to:

- Consider a revised draft of the proposed SSAE *Selected Procedures*.
- 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.
- Discuss materiality issues in a review engagement.

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):

- May 9-11, 2017 – Indianapolis, IN
- August 15-17, 2017 – Boston, MA
- November 14-16, 2017 – Charleston, SC