

**Accounting and Review Services Committee
Meeting Highlights
January 9-11, 2018**

Committee members present:

Mike Fleming, Chair (January 9-10 only)

Denny Ard

Sheila Balzer

Jeremy Dillard (served as Chair in Mike Fleming's excused absence on January 11)

David Johnson (in person on January 9-10 and via teleconference on January 11)

Dustin Verity

Mike Fleming was excused from the meeting on January 11 and Jimmy Burkes was excused from the entirety of the meeting.

AICPA staff present:

Mike Glynn – Senior Technical Manager, Audit & Attest Standards; Staff Liaison – Accounting and Review Services Committee

Kristy Illuzzi - Staff Liaison to the PCPS Technical Issues Committee

Michael Jones – Assistant General Counsel

Chuck Landes - Vice President, Professional Standards (via teleconference for portions of the meeting)

Richard Miller – Special Counsel

Carl Peterson – Vice President, Small Firm Interests – Public Accounting

Selected Procedures Task Force Members:

Marne Doman – PricewaterhouseCoopers LLP (via teleconference on Selected Procedures discussion only)

Paul A. Penler – Ernst & Young LLP (on January 9 and until 10:30 am on January 10)

Representatives from Other Standard Setting Committees:

Mike Santay – Chair, Auditing Standards Board (via teleconference; on January 9-10 only)

Observers:

Laura Billingsley – Practitioners Publishing Company

Daniel J. Dustin – National Association of State Boards of Accountancy, Vice President – State Board Relations

Bruce Nunnally – Carr, Riggs & Ingram, LLC (current member of the AICPA PCPS Technical Issues Committee and incoming ARSC member) (January 9-10 only)

Victoria L. Pitkin – Ostrow Reisin Berk & Abrams Ltd. (incoming ARSC member)

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 January 9-11, 2018 in New Orleans, LA. The following issues were discussed and actions taken:

Welcome and overview of meeting objectives

Chair’s Report

M. Fleming welcomed the attendees to the meeting and went through the agenda for the meeting. M. Fleming also introduced B. Nunnally and V. Pitkin and announced that they are incoming members of the ARSC. M. Fleming thanked P. Penler and M. Doman for participating in the discussion of the Selected Procedures topic.

M. Fleming advised that the meeting represents the last meeting for S. Balzer and J. Dillard. M. Fleming thanked the departing members for their dedication to the profession and for all of their efforts on behalf of the ARSC. S. Balzer and J. Dillard were presented with framed certificates acknowledging their service on the ARSC.

M. Fleming also advised that there has been a lot of activity on the Selected Procedures topic since the ARSC’s meeting in November 2017. M. Fleming thanked D. Ard, J. Dillard, and D. Johnson for their efforts with the Selected Procedures Task Force. In addition to a Task Force meeting on December 11, there have also been calls with representatives of the Assurance Services Executive Committee and other AICPA committees and expert panels, as well as courtesy follow-up calls with certain commenters on the exposure draft. M. Fleming stated that, in particular, D. Ard has worked tirelessly as Chair of the Selected Procedures Task Force.

Update on ARAG Activities

S. Balzer stated that the Assurance Research Advisory Group met on November 30, 2017 to review the research proposals received. Nine research proposals were received and all were related to one of the following topics:

- Evolving Skillset
- Audit Quality
- Risk Assessment and Response
- Sufficiency and Appropriateness of Audit Evidence

The following topics were approved for funding:

- Auditing with Data and Analytics: External Reviewer Perceptions of Audit Quality
- Analyzing the Audit Risk Assessment Process: Real World Insights
- Non-Global Network Firms’ Use of Technology-Based Audit Tools and Implications for Audit Quality

The topic of limited assurance continues to not generate interest among the academic community. The ARAG will be setting aside funding and personnel for specified research projects. If no proposals are received on a topic of importance, the ARAG will

reach out directly to academics and commission research. Limited assurance is a prime topic for such an approach but, a strong case will need to be made that there are quality issues with respect to limited assurance.

Update on ASB Activities

M. Glynn advised that the Auditing Standards Board is meeting January 16-19, 2018, also in New Orleans. During that meeting, the ASB is expected to, among other activities:

- Consider the comment letters received on the exposure draft of the proposed SSAE, *Selected Procedures*.
- Consider the comment letters received on the proposed SAS, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.
- Discuss the current drafts of the proposed revised attestation standards intended to enable a practitioner to report on subject matter without having to obtain a written assertion from the responsible party and to more closely align with International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.
- Discuss issues related to fair presentation and compliance frameworks in the context of special purpose financial statements, including whether and how compliance frameworks should be acknowledged and reflected in AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*.

Update on RIVIO

R. Miller reminded the ARSC that the RIVIO Clearinghouse is a joint project of the AICPA's CPA.com and Confirmation.com to create an online document clearinghouse that enables private businesses to exchange key financial information with other parties. The Clearinghouse also provides a vehicle for CPA firms to submit data so that users are confident that the data is from an appropriate source.

R. Miller stated that, to date, over 100 CPA firms have signed the user agreement and over 50 are currently sharing documents via the Clearinghouse. Over 1,000 documents have been shared. R. Miller stated that many firms are using the Clearinghouse to distribute SOC reports and financial statements to the National Credit Union Association (NCUA).

P. Penler stated that it is his understanding that RIVIO is looking into functionality so that users can provide CPAs with acknowledgment that agreed-upon procedures are sufficient.

Approval of highlights from the November 14-15, 2017 ARSC meeting

J. Dillard made a motion that the ARSC approve the highlights of the November 14-15, 2017 meeting as presented. D. Verity seconded the motion and the ARSC unanimously voted to approve the highlights.

Selected Procedures

D. Ard stated that the objective was to discuss the comments received on the public exposure of the proposed SSAE, *Selected Procedures*; to provide the ARSC with the Task Force's plan with respect to the proposed revisions to the attestation standards; and to obtain feedback and direction from the ARSC.

D. Ard stated that the exposure draft was issued on September 1, 2017 and comments were requested by December 1, 2017. 27 comment letters were received from a variety of interested parties including large international firms, smaller firms, state societies, and regulators. The Selected Procedures Task Force met in Chicago on December 11, 2017 to review the comments received and to discuss potential revisions to the proposed standard. The Chairs of the ARSC and ASB (M. Fleming and M. Santay, respectively) attended the meeting as observers.

D. Ard stated that the majority of the comment letters received expressed support for the proposed expansion of the practitioner's ability to perform procedures and report in a procedures and findings format beyond that currently provided by AT-C section 215, *Agreed-Upon Procedures Engagements*. Many respondents expressed concern regarding the proposal that a practitioner could issue a report without a restriction as to its use in a situation in which no party takes responsibility for the subject matter and sufficiency of the procedures for any purpose. Those respondents concluded that such a service would be more akin to a consulting service as opposed to an engagement performed in accordance with the attestation standards. Most of the larger firms, except Ernst & Young LLP and Deloitte & Touche LLP, expressed that the flexibility proposed by the draft standard could and should be achieved by revising AT-C section 215 as opposed to creating a new AT-C section that would result in two separate services – agreed-upon procedures and selected procedures. The large majority of smaller firm practitioners supported the issuance of a standard that would result in a new AT-C section. However, those responses may be biased as the respondents did not have access to a draft that presented what a revised AT-C section 215 might look like.

Several commenters expressed concerns that are risk management in nature. The Task Force continues to believe that if the proposed report is properly drafted, those concerns are mitigated. Regardless, the Task Force remains committed to developing a standard that is in the public interest. While the proposed services are performed today, and may continue to be performed, as consulting engagements, the Task Force believes that developing an attestation standard for such services would result in higher quality engagements by requiring, among other things, that the practitioner be independent and that the engagement be subject to peer review.

Proposed Standard Versus an Agreed-Upon Procedures Engagement

D. Ard stated that the Task Force believes that the following represents the primary differences between the proposed standard and an engagement currently performed in accordance with AT-C section 215:

- In an agreed-upon procedures engagement, the specified parties are required to agree to the sufficiency of the procedures for their purposes. The proposed standard would not require any party to take responsibility for the sufficiency of the procedures.
- In an agreed-upon procedures engagement, the practitioner is required to request from the responsible party a written assertion about the measurement or evaluation of the subject matter against suitable criteria and disclose in the accountant's report when a written assertion is not obtained. The proposed standard does not include a requirement to either request an assertion or disclose in the accountant's report when the practitioner does not obtain a written assertion.
- In an agreed-upon procedures engagement, the practitioner's report is required to include an alert that restricts the use of the report to the parties that agreed to the sufficiency of the procedures for their purposes. The proposed standard does not include a requirement for the practitioner to restrict the use of the report.

Given that the primary differences from the proposed standard and AT-C section 215 are not numerous, the Task Force proposes that AT-C section 215 be revised to accommodate the flexibility proposed by the draft standard. The proposed revised AT-C section 215 would retain the title *Agreed-Upon Procedures Engagements* – thus the proposed “flexible” engagements would be referred to as “agreed-upon procedures engagements.”

After discussion, the ARSC concluded that it agrees with revising AT-C section 215 to permit the flexibility proposed to a procedures/findings service within the confines of an “agreed-upon procedures” engagement and that the “service” would be called an “agreed-upon procedures” engagement. This approach would also avoid issues with state regulations that refer only to agreed-upon procedures engagements.

Responsibility for the Sufficiency of the Procedures

D. Ard stated that the Task Force noted that the requirement in the proposed standard for the engaging party to provide a written acknowledgment regarding their *awareness* of the actual procedures performed rather than the sufficiency of the procedures for any purpose may be an insufficient requirement. However, the Task Force remains of the mind that the requirement in AT-C section 215 for the specified parties to accept responsibility for the *sufficiency* of the procedures unnecessarily limits the application of a flexible procedures and findings service. The Task Force therefore proposes that there be a requirement for the engaging party to acknowledge that the procedures are *appropriate* for their intended purpose. D. Ard stated that the International Auditing and Assurance

Standards Board has approved a project to revise International Standard on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* and that it is the Task Force's understanding that the IAASB Task Force is proposing the *appropriateness* concept.

D. Ard stated that the Task Force further recommends that, while the practitioner could assist in the development of the procedures and that the procedures may evolve over the course of the engagement, the practitioner would not accept responsibility for the appropriateness of the procedures.

It is proposed that, as part of the terms of the engagement, the engaging party would acknowledge that, prior to the completion of the engagement, it will provide the practitioner with a written acknowledgment regarding the appropriateness of the procedures for the intended purpose of the engagement.

Because the intended users of the practitioner's report would not be required to acknowledge to the practitioner that the procedures are appropriate for their purposes, it is contemplated that the practitioner's report would include some language that serves as an alert that the procedures may not be suitable for all purposes. The Task Force believes that this approach is appropriate given that the practitioner cannot control distribution of the report once it is issued.

After discussion, the ARSC directed that:

- AT-C section 215 be revised so that the practitioner would not be required to get the agreement on the sufficiency of the procedures up front from the specified parties, including the engaging party.
- Unless the practitioner's report is unrestricted, if the engagement is required by contract or regulation, the engaging party's acknowledgement that the procedures performed are *appropriate* for the purposes of the engagement would be required to include written acknowledgement by the engaging party that it communicated with known users to ascertain whether the procedures are appropriate for the users' purposes.
- There would be no requirement to include the procedures in the engagement letter; however, application guidance should be included stating that if the procedures are prescribed that such procedures may be included in the engagement letter.
- Application guidance should be included to address instances in which it may be advisable for the practitioner to directly obtain third-party acknowledgement on the appropriateness of the procedures.

R. Miller stated that there should be no prohibition on the report including a statement that the practitioner or any other party takes responsibility for the sufficiency of the procedures.

Responsibility for the Subject Matter of the Engagement

D. Ard added that the proposed standard states that there are situations in which the engaging party may not be able to take responsibility for the subject matter and that the proposed standard intentionally does not include the concept of a *responsible party* beyond the engaging party. Upon discussion of the comments received on the exposure draft, the Task Force acknowledges that there will always be a *responsible party* but that such party may not be a party to the engagement. The Task Force envisions three possible scenarios, as follows:

- The *engaging party* is the *responsible party*. In such instances, there should be a requirement for the practitioner to obtain the engaging party's acknowledgement that it is responsible for the subject matter of the engagement and to state in the report that the engaging party is responsible for the subject matter.
- The *responsible party* is not the *engaging party* but is a specified party. In such instances, there should be a requirement for the engaging party to identify the responsible party and to state in the report that the responsible party is responsible for the subject matter.
- The *responsible party* is not a party to the engagement. In such instances, there should be a requirement for the engaging party to identify the responsible party but no reference to the responsible party is required to be stated in the report.

The Task Force further proposes that the definition of *responsible party* in AT-C section 105 be revised (or include an application paragraph) to state that there may be engagements in which the responsible party is not a party to the engagement. The Task Force also proposes that the practitioner's report clearly identify the party responsible for the subject matter of the engagement, except when such party is not a party to the engagement.

After discussion, the ARSC recommended that the definition of *responsible party* in AT-C section 105 not be revised as to do so may have unintended consequences on examination and limited assurance attestation engagements. However, it is suggested that application guidance may be added to AT-C section 215 to state that there may be engagements in which the responsible party is not a party to the engagement. The ARSC did agree with the Task Force's proposal that the responsible party be identified in the practitioner's report unless the responsible party is not a party to the engagement.

Requesting or Obtaining a Written Assertion From the Responsible Party

D. Ard stated that the proposed standard does not include a requirement to either request a written assertion or disclose in the accountant's report when the practitioner does not obtain such an assertion. The ARSC concluded that it continues to agree with the ASB's

directive that the attestation standards be revised to not require that the practitioner request or obtain a written assertion.

Use of the Practitioner's Report

D. Ard stated that, to provide increased flexibility, the Task Force is proposing that AT-C section 215 be modified so as not to require that the report include an alert restricting the use of the report to specified parties unless the practitioner determines that the criteria used to evaluate the subject matter are (a) appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria or (b) available only to the specified parties. It is further proposed that the report be required to be restricted when the procedures are prescribed for the practitioner to perform without the practitioner's ability to modify or supplement such procedures.

The proposed standard does not preclude the practitioner from restricting the use of the report if the engaging party requests that the report be restricted or if the practitioner deems a restriction on the use of the report to be appropriate. Practitioners may decide to restrict the use of the report to a specific class of users. Also, it is proposed that the report would be required to include language that serves as an alert that the procedures may not be suitable for any other purposes.

After discussion, the ARSC agreed that the practitioner's report should be restricted when the procedures performed are prescribed without the practitioner's ability to modify or supplement such procedures. The ARSC further recommended that the requirements with respect to restricted use reporting from AT-C sections 205 and 210 be moved to AT-C section 105 so that such requirements are applicable to all attestation engagements. The additional requirement to restrict the use of the practitioner's report when the procedures are prescribed for the practitioner to perform without the practitioner's ability to modify or supplement such procedures should be included in the proposed revised AT-C section 215.

Independence Considerations

D. Ard reminded the ARSC that the practitioner is required to maintain independence with respect to the responsible party in all matters relating to an agreed-upon procedures engagement, both in fact and appearance, under the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.200.001) of the AICPA's Code of Professional Conduct, and its interpretations, as modified by the "Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements" interpretation (AICPA, *Professional Standards*, ET sec. 1.297.010), and in accordance with the "Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs" interpretation (AICPA, *Professional Standards*, ET sec. 1.297.020).

D. Ard stated that the Task Force believes that if the project is revised so as to involve a revision to AT-C section 215 to provide for more flexibility in the performance of agreed-upon procedures engagements, many of the independence concerns are alleviated. Additionally, the PEEC has established a Task Force to monitor the project to address any unintended independence issues that might be created. D. Ard stated that Mike Brand (former ARSC Chair) is chairing that PEEC Task Force and that D. Ard and M. Glynn spoke with M. Brand prior to the ARSC meeting. M. Brand stated that while that Task Force has not had any substantive discussions, he does not anticipate any independence issues given the scope of the Selected Procedures project. In addition, M. Glynn spoke with Jim Brackens, AICPA Vice President – Ethics & Practice Quality, and J. Brackens, likewise, does not see any potential independence issues. M. Glynn will summarize the issues raised in the comment letters and send to M. Brand and J. Brackens and request that PEEC prepare a formal response that may be included in an exposure draft of the proposed revised AT-C section 215. D. Ard requested that any additional questions with respect to independence issues that ARSC members may have be forwarded to M. Glynn and that he will include in the communication to the PEEC.

Timing of the Development of the Proposed Revised AT-C section 215

D. Ard reminded the ARSC that the project is closely related to a separate project undertaken by the ASB's Direct Engagements Working Group. That Working Group is planning on requesting that the ASB issue an exposure draft of the proposed revisions to the attestation standards to enable practitioners to report on subject matter without requesting or obtaining a written assertion at the ASB's meeting in May 2018. It would be reasonable to expose a proposed revised AT-C section 215 at that same time.

After discussion, while the ARSC approves of the project to revise AT-C section 215 to permit for the flexibility proposed in the exposure draft of the proposed SSAE, *Selected Procedures*, the exposure draft will not be withdrawn at this time.

M. Fleming, D. Ard, and M. Glynn will work with the corresponding representatives on the ASB and the Direct Engagements Working Group to most efficiently expose and ultimately issue as final the proposed revisions to AT-C section 215.

M. Glynn stated that these efforts will include monitoring the IAASB's project to revise the international agreed-upon procedures standard to minimize any substantive differences between the two proposed standards.

Walkthrough of the Draft Proposed Revised AT-C section 215

D. Ard advised the ARSC that the draft of the proposed revised AT-C section 215 is intended to illustrate how AT-C section 215 may be revised to accommodate the increased flexibility included in the exposure draft of the proposed SSAE, *Selected Procedures*. The draft has not yet been presented to the full Selected Procedures Task Force and should be considered a preliminary draft.

D. Ard walked the ARSC through the draft of the proposed revised AT-C section 215 and, in addition to the directives discussed in the preceding issues, the ARSC further recommended that:

- The required written representations be harmonized with the required written representations for examinations and limited assurance engagements in AT-C sections 205 and 210, respectively.
- In instances in which the documentation requirements are consistent with AT-C sections 205 and 210, such requirements should be moved to AT-C section 105.

Omnibus - 2018

M. Glynn stated that the objective is to discuss the seven comment letters received on the exposure draft of the proposed SSARS, *Omnibus Statement on Standards for Accounting and Review Services – 2018*; to review and discuss a revised draft of the proposed SSARS; and to vote to ballot to issue the proposed standard as a final SSARS.

M. Glynn stated that concern was raised with respect to the proposal that the technical correction to paragraph .39 of AR-C section 90 be effective upon issuance. The Technical Issues Committee and Grant Thornton expressed such concern in their respective comment letters. M. Fleming stated that he had also spoken to M. Santay (Chair of the ASB) who requested that the ARSC reconsider having the technical correction effective upon issuance.

After discussion, the ARSC voted unanimously to have the technical correction effective upon issuance. The ARSC based this conclusion on its belief that practitioners are not currently following the requirement but, instead are issuing reports that are in conformity with the illustrative reports in the exhibit to AR-C section 90. The technical correction therefore would result in the requirement being in harmony with current practice. Further, the ARSC did not want to set a precedent that technical corrections provide an implementation period. However, the ARSC directed that issuance of the proposed standard be delayed until May 2018 to provide time for AICPA staff to use available communication vehicles to alert practitioners that the technical correction will be effective in May 2018.

Walkthrough of the Draft SSARS

M. Glynn walked the ARSC through the draft of the proposed SSARS. The ARSC directed that an additional application paragraph be added to AR-C section 60 that hangs off the requirement that, as a precondition for accepting an engagement to be performed in accordance with SSARSs, the accountant obtain the agreement of management that it acknowledges and understands its responsibility 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 new application paragraph would make clear, however, that if the accountant accepts

such responsibility the accountant's independence would be impaired if performed for an attest client and the accountant would be precluded from performing a review of the financial statements.

The ARSC deferred a vote to ballot to issue the proposed standard as a final SSARS and directed that a public conference call meeting be held prior to the end of the current ARSC's term on January 31, 2018 in order to conduct such a vote.

Consideration of Proposed Revisions to AT-C sections 105 and 210

M. Glynn stated that the objective was to discuss the drafts of proposed revised AT-C sections 105 and 210 and provide feedback to the Auditing Standards Board's Direct Engagements Working Group. The objective of the proposed standards are to:

- enable a practitioner to report on subject matter without having to obtain a written assertion from the responsible party
- more closely align with International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

M. Glynn walked the ARSC through the drafts of the proposed revised AT-C sections 105 and 210. The ARSC:

- Reaffirmed its belief that proposed revised AT-C section 210 should not preclude a limited assurance engagement on prospective financial information. The ARSC also requests that the ASB consider whether the prohibition on a limited assurance engagement on internal control and compliance with requirements of specified laws, regulations, rules, contracts, or grants should also be removed. M. Glynn stated that he will bring the ARSC's concern to the ASB at its meeting January 16-19, 2018.
- The responsible party's responsibility for the subject matter of the engagement should include "in accordance with (or based on) the criteria."
- Requirements and guidance with respect to obtaining representations from the responsible party or parties when such party or party is not the engaging party should be consistent with the requirements in proposed revised AT-C section 215.
- The proposed requirement that the practitioner's report include a statement that the practitioner has complied with the independence and ethical requirements of the Code of Professional Conduct established by the AICPA be revised to be consistent with the wording in the exposure draft of the proposed SAS on auditor reporting. The revised statement would read that "the practitioner is independent and has fulfilled the practitioner's other ethical responsibilities in accordance with relevant ethical requirements relating to the limited assurance engagement."

- The requirements and application guidance with respect to restricted-use reporting and documentation should be moved to AT-C section 105 so as to apply to all attestation engagements.

Wrap-up

The next in-person meeting of the ARSC will be May 8-10, 2018 in Austin, TX. At that meeting, the ARSC expects to:

- Review drafts of proposed revised AT-C sections 105, 210, and 215 and provide comments, as appropriate, to the ASB or its task force or task forces. The ARSC, in coordination with the ASB, may consider voting to expose proposed revised AT-C sections 105 and 215 for public comment.
- Consider a first read draft of proposed revised AR-C section 90 and issues related to convergence with ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*.
- Further consideration of proposed guidance with respect to the performance of a review engagement in an electronic environment. This would be a continuance of the discussions first held at the ARSC's November 2017 meeting.

Future Meetings

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):

- August 14-16, 2018 – Seattle, WA (location is tentative)
- November 13-15, 2018 – San Juan, PR
- January 8-10, 2019 – location to be determined