

**Accounting and Review Services Committee
Meeting Highlights
August 14-16, 2018**

Committee members present:

Mike Fleming, Chair
Denny Ard
Jimmy Burkes
David Johnson
Bruce Nunnally
Victoria Pitkin
Dustin Verity

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 (for the liaison with the AICPA Technical Issues Committee on August 14 and the afternoon of August 15 and August 16)
Michael Jones – Assistant General Counsel
Chuck Landes - Vice President, Professional Standards (August 14-15 only)
Richard Miller – Special Counsel (via telephone – August 14-15 only)

Observers:

Laura Billingsley – Practitioners Publishing Company
Jessica Luttrull – National Association of State Boards of Accountancy, Associate Director – National Registry
Stan Sterna – Aon Insurance – 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 14-16, 2018 in Seattle, WA. The following issues were discussed and actions taken:

Welcome and overview of meeting objectives

Chair’s Report

M. Fleming welcomed the attendees and stated that the primary objective of the meeting was to consider the draft proposed revised AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* and AR-C section 90, *Review of Financial Statements* and to vote to ballot to expose the proposed revised AR-C sections for public comment. The proposed revisions are intended to more closely converge SSARs with ISRE 2400 (Revised). M. Fleming stated that the ARSC will also consider certain aspects of the Auditing Standards Board’s auditor report project – specifically with respect to reporting on financial statements prepared in accordance with a special purpose framework – and whether

further revisions to SSARs are warranted so as to be consistent with the corresponding audit literature. The ARSC will also conduct its annual liaison meeting with the PCPS Technical Issues Committee.

M. Fleming stated that since the ARSC's meeting in May 2018, the ASB had voted to expose the proposed revised attestation standards for public comment. The vote to expose was 15-5 with the Big 4 representatives and one other ASB member dissenting to the public exposure of the proposed revised standards. The exposure draft was issued on July 11, 2018 and the comment period ends on October 11, 2018.

M. Fleming stated that he presented, along with M. Glynn and Mike Santay (Chair of the ASB), an update on the ARSC's and ASB's activities at the AICPA's ENGAGE Conference in Las Vegas. Further, M. Fleming, M. Glynn, and M. Santay attended the TIC's meeting at ENGAGE and discussed certain aspects of the attestation standards project as well as certain concepts included in the proposed revisions to AR-C sections 60 and 90.

M. Fleming thanked D. Ard for his tireless efforts since the May 2018 ARSC meeting in furtherance of the joint project with the ASB to revise the attestation standards.

Update on ARAG Activities

D. Verity stated that the Assurance Research Advisory Group issued its final request for proposal in May 2018 and is currently receiving proposals for research. The ARAG expects to determine which proposals to fund in February 2019. The topic of various levels of assurance (and how users and practitioners consider high/reasonable assurance versus limited assurance) was one of the topics that was included in the request for proposal. If no suitable proposal is submitted, the ARAG has earmarked \$15,000 for such research and will take other steps to have it performed.

Director's Report

C. Landes stated that the Auditing Standards Board met on July 23-26, 2018 in Nashville, TN. A primary agenda item at that meeting was to consider a final draft of the proposed auditor reporting standard for employee benefit plans. The ASB did vote to issue the proposed standard as a final SAS. The vote included one dissent from a Big 4 representative and a second Big 4 representative abstained from the vote. C. Landes stated that the most significant difference that practitioners will notice is that the disclaimer in a limited scope audit has been eliminated. The auditor will continue to not be required to audit the certified information. In response to a question from M. Fleming, C. Landes stated that the Department of Labor has been engaged in the process and has indicated that it is satisfied with the resulting standard and believes that it will improve audit quality with respect to employee benefit plans. In response to a question from J. Burkes, C. Landes stated that the Employee Benefit Plan Guide will be updated after the final SAS is issued. The revised Guide is expected to be issued in the Fall. The SAS will be effective at the same time as the revisions to the AU-C section 700 series.

With respect to the project to revise the AU-C section 700 series, C. Landes stated that it is anticipated that the final SAS will be voted for issuance at the ASB's meeting in January and that the final SAS will be substantially the same as the exposure draft.

With respect to the project to revise the AU-C section 800 series, C. Landes stated that the issues directly relate to SSARs as special purpose frameworks are more common in compilations and reviews than they are in audits. Currently, practitioners who audit or review financial statements prepared in accordance with a special purpose framework are required to consider whether such financial statements include disclosures comparable to those required in financial statements prepared in accordance with GAAP. Further, audit and review reports on financial statements prepared in accordance with a contractual or regulatory basis of accounting are required to be restricted as to use. Alternatively, the IAASB has taken the position that special purpose frameworks are either fair presentation or compliance frameworks. If the framework is a compliance framework, by definition, there is no requirement for the financial statements to include GAAP equivalent disclosures. The IAASB requires that audit opinions on such financial statements include different wording than opinions on financial statements prepared in accordance with a fair presentation framework. C. Landes stated that the ARSC may want to consider whether to consider regulatory and contractual frameworks to be compliance frameworks and removing any requirement to consider GAAP-like disclosures for such frameworks. Reports on financial statements prepared in accordance with such frameworks would be required to be restricted as to use.

The ARSC discussed the issue in detail during its discussion of Agenda item #3.

Approval of highlights from the May 8-10, 2018 meeting

D. Verity made a motion that the ARSC approve the highlights of the May 8-10, 2018 meeting as presented. D. Ard seconded the motion and the ARSC unanimously voted to approve the highlights.

Agenda item #1 – Proposed Revisions to AR-C section 90 for Closer Convergence With ISRE 2400 (Revised)

M. Glynn stated that the objective was to vote to ballot to expose the proposed revised AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* and AR-C section 90, *Review of Financial Statements* for public comment.

The ARSC did not direct that any additional substantive revisions be made to draft proposed AR-C section 60 included in the agenda material.

With respect to the proposed revisions to AR-C section 90, the ARSC directed that the following additional revisions be made:

- Title the section immediately preceding the effective date “The Engagement to Review Financial Statements” and include the following paragraph as the first paragraph in that section:

.03 In a review of financial statements, the accountant expresses a conclusion regarding the entity’s financial statements in accordance with an applicable

financial reporting framework. The accountant's conclusion is based on the accountant obtaining limited assurance. The accountant's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.

The paragraph is consistent with paragraph .06 of ISRE 2400 (Revised). However, the first sentence of the corresponding paragraph in ISRE 2400 (Revised) reads as follows:

In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity's financial statements in accordance with an applicable financial reporting framework.

The ARSC determined that the purpose of the conclusion is not to enhance the degree of confidence of users – especially since the accountant would not have knowledge of all potential users.

- All references to “evidence” refer to “review evidence.”
- The definition of *limited assurance* proposed in the agenda draft be revised as follows:

Limited assurance. The level of assurance obtained where the risk that the accountant expresses an inappropriate conclusion is ~~not reduced to a level as low as~~ ***greater than it is in*** an audit ***engagement*** but is reduced to a level that is acceptable in the circumstances of the engagement as the basis for expressing a conclusion about whether the accountant is aware of any material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework. ***While*** ~~the~~ combination of the nature, timing, and extent of evidence gathering procedures is ***limited compared to an audit engagement, it is*** at least sufficient for the accountant to obtain a level of assurance that is meaningful to the accountant.

- In paragraph .A16, with respect to professional skepticism, the reference to the accountant's satisfaction with *adequate* review evidence should be revised to refer to *persuasive* review evidence.
- In paragraph .A68, the reference to the *adequacy* of review evidence should be revised to refer to the *persuasiveness* of review evidence.

In addition, the ARSC specifically considered the definition of *review evidence* as included in the proposed revisions to AR-C section 90. The ARSC concluded that the proposed revised definition is appropriate.

B. Nunnally made a motion which was seconded by V. Pitkin to expose the proposed revised AR-C sections 60 and 90 for public comment. The exposure draft should not be issued until after the November ARSC meeting so that the Committee can consider whether additional revisions are necessary in order to be consistent with the requirements for reporting on financial statements prepared in accordance with a special purpose framework for an audit engagement. The ARSC voted unanimously to expose the proposed revisions for public comment with the hold for additional consideration of reporting on financial statements prepared in accordance with a special purpose framework.

Agenda item #2 – Addressee in Report

J. Burkes presented the agenda material and stated that the objective was to discuss whether including the city and state of the addressee in the accountant's compilation or review report would be beneficial to users of the financial statements and the potential practical implications if such a requirement were adopted.

J. Burkes stated that the issue is very important to smaller firms with respect to firm mobility. Currently 24 states have adopted mobility and 2 more states have it on their active agendas. 21 jurisdictions require registration of CPAs who perform an attest service out of state. NASBA believes that the practice of including the city and state of the addressee in the practitioner's report will assist practitioners in avoiding the performance of unlicensed services and the corresponding disciplinary actions. Further, identification of the city and state of the addressee may deter actions by multiple state boards.

The ARSC discussed the issue and felt that while there may be difficulty in determining the city and state of the addressing in some engagements, for most engagements the determination would not be difficult. Ordinarily, the city and state of the addressee would be what was used for the engagement letter. In certain instances, the practitioner may have to use professional judgment and may consider:

- the principal location of the entity's business operations;
- the location where a preponderance of the work was performed;
- the primary location of the entity's books and records;

V. Pitkin stated that there may need to be a requirement to identify the city and state of the addressee as part of the agreement on engagement terms (that is, at the engagement letter stage of the engagement).

Recognizing that the issue would be equally important to audits, reviews, and engagements performed in accordance with the attestation standards, the ARSC directed M. Glynn to request the ASB Auditor Reporting Task Force add B. Nunnally as a task force member with respect to this narrow issue. Further, to assist potential respondents, the ARSC proposed that one joint exposure draft be developed that proposes the change for all reports (audit, review, and attestation). M. Glynn stated that he would communicate that directive to the appropriate representatives on the ASB's Auditor Reporting Task Force.

Liaison With the PCPS' Technical Issues Committee

The ARSC met with the AICPA Technical Issues Committee (TIC). The TIC provided its initial comments on the proposed revised attestation standards including that the TIC is supportive of the proposed standard particularly the proposed revisions to AT-C section 215 to provide flexibility for practitioners performing agreed-upon procedures engagements. The TIC also provided thoughts with respect to the different levels of assurance (reasonable vs. limited assurance). The ARSC provided updates of its current projects including the proposed SSARs that would result in an explicit requirement for the accountant to determine materiality in a review engagement and received feedback from TIC members.

Agenda item #3 – Consideration of Potential Revisions to SSARs for Consistency With Proposed Revisions to AU-C sections 700 and 800

M. Glynn stated that the objective of the discussion was to consider certain significant proposed revisions to the auditor reporting model under consideration by the Auditing Standards Board and whether similar revisions should be considered for reports issued in accordance with SSARs.

With respect to reporting when there is substantial doubt about the entity's ability to continue as a going concern, the proposed amendments to the audit reporting requirements would require, if, after considering identified conditions or events and management's plans, the auditor concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains, the auditor would include a separate section in the auditor's report under the heading "Substantial Doubt About the Entity's Ability to Continue as a Going Concern" instead of an emphasis-of-matter paragraph. The content of this separate section would be similar to that included in the emphasis-of-matter paragraph.

Additionally, the proposed revised auditor reporting requirements expands the description of management for the preparation and fair presentation of the financial statements, and includes a requirement to identify those responsible for the oversight of the financial reporting process when those responsible for such oversight differ from those responsible for the preparation of the financial statements.

The ARSC considered revisions that would be necessary to harmonize the reporting requirements in AR-C section 90 with the proposed revised auditor reporting requirements. The ARSC noted that the ASB has not proposed revisions to AU-C section 930, *Interim Financial Information* with respect to reports on interim reviews. The ARSC directed that no revisions be proposed to the reporting requirements in AR-C section 90 and instead, an interpretation be developed and issued after the issuance of the final SAS that includes the revised auditor reporting standards that illustrates how an accountant could present a review report if the accountant wanted to report in a manner similar to that required by the revised auditor reporting standards. The ARSC stated that a similar interpretation should be developed for AU-C section 930 but that such interpretation would have to be issued by the ASB.

Additionally, in a project separate from the exposure draft, the ASB's Auditor Reporting Task Force has proposed revisions to AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, to introduce the concept of a compliance framework, which is included in ISA 800 (Revised) *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*. The ARSC considered the revisions being considered by the ASB. The ARSC directed that the materials developed for the October 2018 ASB meeting be considered by the ARSC and that, if revisions to AR-C section 90 are determined to be appropriate, the ARSC would consider at its meeting in November 2018 and include in the exposure draft of the proposed revisions to AR-C section 90 that was approved at this meeting.

Agenda item #4 – Open Discussion of Potential SSARs Revisions

The ARSC discussed any potential additional revisions that should be considered to the SSARs. While the ARSC did not have any additional revisions that they believed would be necessary to SSARs, the ARSC did conclude that it would be appropriate to have a discussion with the Auditing Standards Board to harmonize AU-C section 930, *Interim Financial Information* with AR-C section 90. Specifically, M. Fleming expressed a concern regarding a potential difference between AR-C section 90 and AU-C section 930 in circumstances where the financial statements are materially misstated and the effects of such misstatement is pervasive. Accountants performing a SSARs review would have the option of issuing a report containing an adverse conclusion whereas an accountant performing an interim review in accordance with AU-C section 930 would be required to withdraw from the engagement. The ARSC also questioned whether there are many interim reviews performed in accordance with AU-C section 930. M. Glynn stated that he would communicate with the Chair and the staff liaison to the ASB and advise as to the ARSC's suggestion.

Wrap-up

The next in-person meeting of the ARSC will be November 13-15, 2018 in San Juan. At that meeting, the ARSC expects to consider potential additional revisions to AR-C section 90 with respect to reviews of financial statements prepared in accordance with a special purpose framework and also initial thoughts on comment letters received on the proposed revised attestation standards. The ARSC may consider voting to expose the aforementioned proposed revisions to AR-C section 90 for public comment.

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):

- November 13-15, 2018 – San Juan, PR
- January 8-10, 2019 – La Jolla, CA
- May 7-8, 2019 – Washington, DC
- August 13-14, 2019 – Denver, CO