Agenda Item 1B (2)

Q4 - Materiality – Responses

Hierarchical Name	Respondent	Response	Comments
Nodes\\Q04	02 - Alpresh Shah	The following language itself in the accountant's report support an idea of determining materiality for the financial statements as a whole. If materiality is not established, how possibly an accountant will be able to conclude whether a particular issue or a misstatement or an error is material or immaterial from the review engagement standpoint? Without establishment of an engagement threshold, it will be difficult to conclude what should be considered on the statement of uncorrected misstatements (in cases where management do not want to record or book those engagement in the financial statements). Therefore, I agree with the explicit requirement for the accountant to determine materiality in the review engagement. "Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America."	

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		Again considering the thoughts mentioned in comment# 3 point# a) above, although the accountants provide limited assurance, the practitioners do provide some sort of assurance on the review engagement. Considering this thought	
		process, I agree that the accountants should design and perform analytics and inquiries to address all material items in the financial statements (including disclosures). If management omitted any disclosures then it should clearly be mentioned on the management representation letter including any uncorrected misstatements. This is considering the fact that any issues that qualify as "Omissions or Misstatements or Errors in the financial statements including disclosures" will remain the same regardless of "Limited Assurance engagement" or a "full scope audit engagement" and it should be brought to the attention of management or those charged with governance in any shape or form considered appropriate within the accounting literature (pursuant to the updated provisions of AR-C Section 90).	
Nodes\\Q04	03 - Carr Riggs	CRI agrees with this proposed requirement and we believe this proposal simply requires what most accountants are already doing. We also believe this proposed requirement resolves a common misconception in practice that if you actually compute an amount for materiality in a review that you have effectively performed an "audit" procedure.	

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Nodes\\Q04	04 - NJCPA	Most accountants determine materiality during their review engagements, however, having this requirement explicitly stated in the standards would provide for consistency among firms in performing these engagements. The Group does not disagree or agree with the proposed explicit requirement to determine materiality but does believe the application guidance is helpful.	
Nodes\\Q04	06 - CLA	We agree with the explicit requirement for the accountant to determine materiality for the financial statements as a whole and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. We also agree with the proposed requirement for the accountant to design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures. The proposed application guidance is helpful and sufficient.	
Nodes\\Q04	08 - Michigan OAG	We support the requirement for the accountant to determine materiality for the engagement and apply it in designing procedures and evaluating the results of those procedures. We also agree that the analytical procedures and inquiries should address all material items and disclosures in the financial statements.	

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Nodes\\Q04	10 - Crowe LLP	In a review engagement, the accountant has to have a concept of "materiality" to be able to conclude if the financial statements are materially misstated. In practice, it is likely that accountants have historically assessed materiality in review engagements. We concur with the proposed explicit requirement for the accountant to determine materiality for the financial statements as a whole and apply that materiality when designing review procedures and evaluating the results from those procedures. We also agree that the accountant should design and perform the analytical procedures and inquiries to address all material items in the financial statements, including disclosures.	
Nodes\\Q04	12 - NSAA	We support the requirement for the accountant to determine materiality for the financial statements as a whole and apply it in designing the procedures and in evaluating the results of those procedures. We also agree that the analytical procedures and inquiries should address all material items and disclosures in the financial statements.	
Nodes\\Q04	16 - Baker Tilly	As pointed out in the explanatory memorandum included in the exposure draft, without determining materiality accountants would be unable to comply with numerous SSARS' requirements, therefore, we agree with adding an explicit requirement. Further, we believe that the proposed application guidance is helpful and sufficient in assisting	

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		accountants in applying the proposed requirement. Since the objective of a review is to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements, we believe that it necessary for accountants to design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures, therefore, we agree with adding the proposed requirement.	
Nodes\\Q04	18 - Navolio Tallman	We agree with the proposed explicit requirement and believe that it is consistent with the intent of the standards and reflects what many accountants are already doing. Also, we agree with the requirement to design and perform analytical procedures and inquiries to address all material items and that it logically follows the explicit requirement to apply materiality in designing procedures and evaluating results obtained from those procedures.	
Nodes\\Q04	22 - FICPA	The Committee agrees with the proposed explicit requirement for the accountant to determine a materiality threshold for the financial statements as a whole and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures.	

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		We also agree with the proposed requirement for the accountants to design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures. However, the Committee believes that materiality should not focus only on a quantitative determination but also on a qualitative assessment which could be achieved through targeted inquiries and reading	
Nodes\\Q04\Q04 - Agree - with proposed revisions to guidance/additional guidance	11 - KPMG LLP	While we agree with the Committee's proposed requirement for the accountant to determine materiality for the financial statements as a whole, to apply such materiality in designing and evaluating the results obtained from those review procedures, the accountant will need additional guidance. We believe the determination of materiality should be the same for an audit and a review engagement, and there is opportunity to better align the Proposed Standard with AU-C section 320, Materiality in Planning and Performing an Audit (AU-C 320). Guidance in AU-C 320 that could be helpful to an accountant in determining materiality, such as the use of benchmarks in determining materiality for the financial statements as whole, thresholds for clearly trivial misstatements and documentation requirements related to the determination of materiality.	

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Nodes\\Q04\Q04 - Agree - with proposed revisions to guidance/additional guidance	13 - TIC	TIC agrees with the requirement to determine materiality for the financial statements as a whole and the proposed requirement for the accountant to design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures. Paragraph A33 states that the determination of materiality is a matter of professional judgement and is affected by the accountant's perception of the needs of the intended users of the financial statements and that it is reasonable to assume that users will understand that financial statements are prepared, presented, and reviewed to levels of materiality. TIC believes it may be helpful to some practitioners to provide additional application guidance regarding the considerations and calculation of materiality to be used in designing review procedures and evaluating the results of those procedures, particularly explaining how it is similar to or varies from materiality in an audit. TIC also believes that some additional illustrations and examples on how to apply materiality to the design and performance of review procedures would be helpful. TIC agrees that the accountant should design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures.	

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Nodes\\Q04\Q04 - Agree - with proposed revisions to guidance/additional guidance	14 - RSM US LLP	We agree with the addition of an explicit requirement in AR-C section 90 for the accountant to determine materiality for the financial statements as a whole given the clear reference to material misstatements in the objective and, therefore, the accountant's report. We agree that in order to meet that objective a practitioner should apply that materiality to evaluating the results of review procedures. We expect proposed paragraph .A34 would result in practitioners using the same materiality calculation as when performing an audit and agree with this approach. However, we believe this could be even more clearly stated to avoid confusion, such as: Proposed AU-C 90.A34 The accountant's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by the accountant as a basis for expressing a conclusion on the financial statements. For example, overall materiality for an audit engagement would be the same as materiality for a review engagement on the same set of financial statements. We agree with the overall concept of applying materiality when designing procedures but feel additional application guidance would be helpful. It	

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		would be beneficial for practitioners to have further practical guidance on how materiality may apply when calculating the appropriate precision of an expectation when designing analytical procedures. Extant	
		AU-C 90.A45 (proposed renumbered from .A40) does state that the analytical procedures developed in a review may be less precise than those developed in an audit. We believe additional guidance could be added to the section "Investigating Results of Analytical Procedures" to further carry through the concept of materiality. For example, application guidance could be added attached to extant paragraph AU-C 90.28 (proposed renumbered from .21), preceding the application guidance in extant paragraph AU-C 90.A48 (proposed renumbered from .A43) as follows: .AXX When evaluating whether expected values differ by a significant amount, the accountant may determine what constitutes a significant amount by comparison to materiality, a percentage of materiality, or an amount determined in relation to the balance being tested. We also believe clarification would be helpful on how to determine the extent of testing when performing procedures in addition to inquiry and analytical procedures, such as	

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		test of details though sampling. Without the concept of performance materiality or explicit guidance, practitioners may be confused if they should apply the same mathematical calculations as they may do for an audit. This could be addressed by updating extant paragraph AU-C 90.A39 (proposed renumbered from .A34) as follows:	
		.A39 Review evidence obtained through the performance of analytical procedures and inquiry will ordinarily provide the accountant with a reasonable basis for obtaining limited assurance. However, in addition to analytical procedures and inquires, in certain circumstances and based on the accountant's professional judgment, the accountant may perform procedures ordinarily performed in an audit. In such circumstances, the engagement remains a review, and the accountant is not required to perform an audit of the financial statements or perform the procedures to the same extent of testing then would be performed in an audit. For example, if sampling procedures were performed for a review engagement, they would not be required or expected to be conducted using the same sampling approach or sample size determination utilized in an audit. We also agree with the proposed requirement for the accountant to design and perform analytical procedures and inquiries to address all material items in the financial statements including	

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		disclosures. Clarification in extant .A39 (proposed renumbered from .A34) that analytical procedures may not be appropriate for items that contain no plausible relationship would be useful. Additionally, rather than using the phrase, "the accountant may perform procedures ordinarily performed in an audit[…]," we propose using "the accountant may perform other procedures such as test	
		of details." We believe this would help clarify that it is the nature of the testing that may be comparative to an audit rather than the extent. We believe additional application guidance on qualitative considerations when designing and performing analytical procedures and inquiry would be useful. Currently, qualitative considerations are only discussed in the context of evaluating findings. This could be addressed by adding application guidance aligned with AU-C 90.25 such as: Both quantitative and qualitative factors are considered when determining which items are material to the financial statements and disclosures and areas of increased risk of material misstatement. For example, disclosure of the implementation status of a new accounting standard may not include quantitatively material numerical disclosures, but may be qualitatively material such that the accountant would perform inquiry procedures to validate the disclosures presented.	

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Nodes\\Q04\Q04 - Agree with documentation concerns	05 - NYSSCPA	We agree with the explicit requirement that an accountant determine materiality for the financial statements as a whole and apply that materiality when designing and evaluating the results of the procedures performed. We believe a required determination of materiality is necessary in order to obtain limited assurance as to whether the accountant is aware of any material modifications that should be made to the financial statements. The application of materiality is currently discussed in various paragraphs throughout AR-C section 90, Review of Financial Statements, and an explicit requirement will hopefully reduce the diversity in practice that currently exists. The accountant's conclusion paragraph in the review report includes a reference to material modifications. However, we are concerned that the explicit requirement for the accountant to determine materiality may complicate communication to clients and documentation requirements may become excessive at a review level engagement. We would appreciate guidance on how this should be handled.	
Nodes\\Q04\Q04 - Disagree with the requirement to apply procedures to all material items	07 - NASBA	We agree with the explicit requirement for the accountant to determine materiality for the financial statements as a whole and to apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. The AICPA Auditing Standards Board recently proposed amendments to the description of materiality	

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		to the Statement on Auditing Standards and Statement on Standards for Attestation Engagements. While the proposed materiality description in AR-C section 90 agrees with the descriptions of materiality in the proposed amendments, if any changes are made to the descriptions of materiality as a result of that exposure draft, corresponding changes should be made to AR-C section 90 as well. We do not agree with the proposed requirement for the accountant to design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures. Rather than setting a prescriptive scope, the decision to design and perform analytical procedures and inquiries in a review engagement should be based on the professional judgment of the accountant.	
Nodes\\Q04\Q04 - Disagree with the requirement to apply procedures to all material items	09 - ICPAS	The Committee supports the proposed explicit requirement for the accountant to determine materiality for the financial statements as a whole and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. The Committee believes that the proposed application guidance is helpful and sufficient. The Committee is concerned that the requirement in paragraph 25 of AR-C section 90 which requires the accountant to design and perform the analytical procedures and	

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		inquiries to address all material items in the financial statements, including disclosures, may lead to the accountant spending more effort than necessary on areas that do not have an increased risk of material misstatement. As such, the Committee recommends retaining the extant language which requires the accountant to "focus the analytical procedures and inquiries in those areas where the accountant believes there are increased risks of material misstatements."	
Nodes\\Q04\Q04 - Disagree with the requirement to apply procedures to all material items	11 - KPMG LLP	We believe a key concept in the auditing standards that is also important to review engagements, is the risk-based approach concept to identify areas in the financial statements with increased risk of material misstatement. We recognize that a review is a different level of assurance than an audit and the response to the risk of material misstatement between the two levels of service is different. We believe the risk assessment procedures outlined in paragraphs AR-C 90.21-25 are appropriate, however, we believe there is an opportunity for greater quality and consistency in review engagements by applying concepts within AU-C section, 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AU-C 315). We do not support the proposed requirement that the accountant must design and perform analytical procedures and inquiries to address all	

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		material items in the financial statements, including disclosures. Instead, we believe the accountant should perform risk assessment procedures to focus review procedures to identify those areas with higher risk of material misstatement. The review procedures would still include analytical review procedures and inquiries, but only after the accountant has appropriately performed their risk assessment procedures.	
		We suggest the Committee consider enhancing the Proposed Standard by including certain risk assessment concepts and procedures from AU-C 315 to assist the accountant with designing the nature and extent of review procedures to be performed and by allowing the accountant to focus those review procedures on financial statement areas with a higher risk of material misstatement. For example, paragraphs 21 and 22 in the Proposed Standard would be further enhanced by including AU-C 315.12, and related application material .A25 - .A48, Appendix A, Understanding the Entity and Its Environment, and Appendix C, Conditions and Events that May Indicate Risks of Material Misstatement.	
Nodes\\Q04\Q04 - Disagree with the requirement to apply procedures to all material items	19 - Grant Thornton	We support the proposed explicit requirement for the accountant to determine materiality for the financial statements as a whole and to apply this materiality both in designing the procedures for the engagement and in evaluating the results obtained from those procedures. Additionally, we believe that the proposed application	

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		guidance is helpful and sufficient for accountants in applying the proposed requirement. However, we believe this requirement may result in a change in current practice for certain practitioners and therefore result in additional costs for review services. As such, we recommend that the ARSC consider additional outreach to assess such impact and whether the benefit to the engagement quality would be justified. With respect to the second part of this question, we are concerned that the proposed requirement in paragraph 25 of AR-C section 90, which requires the accountant to design and perform the analytical procedures and inquiries to address all material items in the financial statements including disclosures, would limit the accountant's judgment and inappropriately shift his or her focus to areas that may have a lower likelihood of material misstatement. For example, property, plant, and equipment is often a material item in the financial statements, but an increased risk of material misstatement often is not indicated in this area. We are concerned this requirement would foster a	
		compliance mindset whereby the accountant focuses on documenting his or her consideration of areas that may have a lower likelihood of material misstatement. This	

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		shift in the accountant's focus, from the stated objectives of a review engagement to a compliance mindset, could have the unintended consequence of reducing the accountant's attention on areas where an increased risk of material misstatement actually exists, including areas that may be below the materiality threshold. We recommend that the ARSC consider the Committee's underlying rationale of this proposed requirement. If this proposed requirement does not stem from known quality issues, we recommend that the ARSC revert to guidance that is closer to the extant requirement in paragraph 18, which requires the accountant to "focus the analytical procedures and inquiries in those areas where the accountant believes there are increased risks of material misstatements." Finally, we encourage the ARSC to continue to follow the Auditing Standard Board's materiality project and to adjust the proposed language in this standard to reflect any revisions to the Board's description of materiality as a result of that project.	
Nodes\\Q04\Q04 - Disagree with the requirement to apply procedures to all material items	20 - VSCPA	We believe that the proposed explicit requirement for the accountant to determine materiality is appropriate and is basically making what was previously implicit, explicit. The	

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		proposed application guidance is helpful and sufficient for accountants in applying the proposed requirement. We do not believe the proposed requirement for the accountant to design and perform analytical procedures and inquiries to address all material items in the financial statements, including disclosures is appropriate for a review level engagement. Such a requirement increases the level of responsibility for the accountant and leads to the belief of increased assurance. Further, not all material items in the financial statements require analysis and inquiry. For example, property and equipment may be a material item but due to limited activity does not require analysis or inquiry. We suggest the ARSC revise this proposal or strike it all together.	
Nodes\\Q04\Q04 - Disagree with the requirement to apply procedures to all material items	21 - Deloitte	While we agree with the proposed explicit requirement for the accountant to determine materiality for the financial statements as a whole and apply this materiality in designing the review procedures and in evaluating the results obtained from those procedures, the ARSC should consider the outcome of the ASB deliberations as noted above. By doing so, this will ensure alignment of the suite of professional literature issued by the AICPA and alleviate any potential confusion in practice. D&T requests ARSC consider the commentary provided in	

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		our letter dated August 7, 2019, in response to the proposed SAS, Amendments to the Description of the Concept of Materiality, and the proposed SSAE, Amendments to the Description of the Concept of Materiality, which includes amendments to AT-C 210. These comments are equally applicable and relevant to AR-C 90 of the proposed ED. Further, D&T does not believe it is appropriate to extend the analytical procedures to all material items in the financial statements as reflected in paragraph 25 of AR-C 90 of the proposed ED. Paragraph 17 of extant AR-C 90 states that "the accountant should design and perform analytical procedures and make inquiries and perform other procedures . . . based on the accountant's: (a) understanding of the industry, (b) knowledge of the entity, and (c) awareness of the risk that the accountant may unknowingly fail to modify the accountant's review report on	
		financial statements that are materially misstated." This risk-based approach forms the foundation of extant AR-C 90; a requirement to review all material items in the financial statements undermines the risk-based approach the judgments of the practitioner. This will result in a change in existing practice as it relates to the scope of work performed. While we are supportive of enhancing requirements to improve quality with respect to performance of review engagements, we are not aware of existing practice issues as they relate to the extent of	

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		review procedures performed. We do not support the inclusion of the requirement, and instead recommend that ARSC collaborate with the AICPA Peer Review Board in order to better understand, based on results from peer reviews performed, whether such a change in the SSARS is warranted and necessary. Separately, the phrase “including disclosures” in paragraph 25 of the proposed ED is superfluous, as financial statements is a defined term in paragraph 7 of AR-C 60 of the proposed ED and already encompasses disclosures.	