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September 27, 2019

Mr. Mike Glynn
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10105
USA

Re: Proposed Statement on Standards for Accounting and Review Services, *Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks*

Dear Mr. Glynn:

Deloitte & Touche LLP ("D&T," "our," or "we") is pleased to respond to the request for public comment from the Accounting and Review Services Committee (ARSC) of the American Institute of Certified Public Accountants (AICPA) on its proposed Statement on Standards for Accounting and Review Services (SSARS), *Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks* (the "proposed ED"). D&T acknowledges that the proposed ED includes, among other revisions, various amendments to AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* (AR-C 60), and AR-C section 90, *Reviews of Financial Statements* (AR-C 90), aimed to converge with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements* (ISRE 2400 (Revised)), to facilitate the accountant's ability to perform and report on engagements in accordance with both sets of standards and to avoid unnecessary differences between the standards that may result in confusion.

While we support convergence and minimizing differences between AR-C 90 of the proposed ED and ISRE 2400 (Revised), we believe certain proposed amendments to AR-C 90 of the proposed ED may result in inconsistencies as it relates to the suite of professional standards pertaining to review engagements performed within the United States. D&T believes that having defined terms (or no definitions as the case may be) and performance requirements that are similarly aligned within our jurisdiction is important for the consistent execution of all review engagements of historical financial information. This will alleviate confusion for accountants when they are also performing review procedures in accordance with the Statement on Auditing Standards (SAS) No. 122, *Statements on Auditing Standards: Clarification and Recodification, as amended*, specifically AU-C section 930, *Interim Financial Information* (AU-C 930), and Statements on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*, specifically section 210, *Review Engagements* (AT-C 210).

Further, there are a number of proposals issued by both the Auditing Standards Board (ASB) and ARSC that are currently being exposed for public comments, including:

- Proposed SSAE, *Amendments to the Description of the Concept of Materiality*, which includes amendments to AT-C 210.

- Proposed SSAE, *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification*, which includes amendments to AT-C 210.
- Proposed SAS, *Amendments to Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS no. 134*, which addresses special purpose frameworks.
- Proposed SAS, *Audit Evidence*, which may affect more broadly how the profession evaluates information obtained to be used as audit evidence.

In each instance the finalization of the respective SSAEs and SASs may have a related impact that the ARSC may wish to consider as it pertains to AR-C 60 and AR-C 90 of the proposed ED. In order to avoid undue disruption to accountants performing review engagements of financial statements by making further possible amendments to the SSARS, D&T suggests that it may be prudent for ARSC to wait until the aforementioned standard setting activities have been concluded prior to the finalization of the proposed ED.

Our responses to selected issues posed in the proposed ED and other matters that we would like to draw to the attention of the ARSC are discussed in further detail in the appendix.

D&T appreciates the ARSC's consideration of these comments as it moves forward with finalizing the proposed amendments. We would be pleased to discuss our letter with you at your convenience. If you have any further questions, please contact Dora Burzenski at +1 206 716 7881.

Sincerely,

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

Deloitte & Touche LLP

Appendix – Selected Issues for Consideration and Editorial Recommendations

Request for Comment 2: Please provide your views on the proposed definition of limited assurance and whether you believe that defining the term will assist practitioners in planning and performing high-quality review engagements. If you believe that the proposed definition is not sufficient or is inappropriate, please provide your thoughts about how limited assurance should be defined.

At this time, D&T does not believe including the definition of limited assurance will assist accountants in planning and performing high-quality review engagements. While limited assurance is defined in ISRE 2400 (Revised), there is currently no similar definition in the professional standards issued by the AICPA. From a practical standpoint, D&T is not aware of any known issues from an execution or reporting perspective due to there being no definition of the term “limited assurance” or any practice issues resulting from confusion over the meaning of the term. We believe that revised paragraphs .07 and A4 of AR-C 90 of the proposed ED provide accountants an adequate basis to understand the concept of limited assurance. We recommend deleting the definition and the related application material as no further clarification is needed in the SSARS at this time.

Request for Comment 3: Please provide your views on the proposed explicit requirement for the accountant to plan and perform the review with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Do you believe that the proposed application guidance is helpful and sufficient for accountants in applying the proposed requirement?

D&T agrees with the proposed explicit requirement for the accountant to plan and perform the review with professional skepticism.

Request for Comment 4: Please provide your views on 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. Do you believe that the proposed application guidance is helpful and sufficient for accountants in applying the proposed requirement? Additionally, please provide your views on 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.

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 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 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.

Request for Comment 5: Please provide your views on the proposed additional required inquiries of members of management who have responsibility for financial and accounting matters concerning the financial statements.

D&T agrees with the proposed additional required inquiries of members of management who have responsibility for financial and accounting matters concerning the financial statements.

Request for Comment 6: Please provide your views on the proposed additional required procedures with respect to the accountant's consideration of related parties in a review of financial statements.

D&T agrees with the proposed additional required procedures with respect to the accountant's consideration of related parties in a review of financial statements.

Request for Comment 7: Please provide your views on the proposal to permit the accountant to express an adverse conclusion for an engagement performed in accordance with AR-C section 90 when he or she determines, or is otherwise aware, that the financial statements are materially misstated and the effects of the matter or matters are both material and pervasive to the financial statements. Also, please provide your views regarding whether the reasons to permit an adverse conclusion in accordance with AR-C section 90 are consistent with the reasons to permit an adverse conclusion in accordance with AT-C section 210.

D&T agrees with the proposal to permit the accountant to express an adverse conclusion for an engagement performed in accordance with AR-C 90 of the proposed ED when the accountant determines, or is otherwise aware, that the financial statements are materially misstated and the effects of the matter or matters are both material and pervasive to the financial statements. Similar to the comments above, however, in the interest of alignment, D&T suggests related standard setting activities first conclude in certain areas, specifically related to proposed SSAE, *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification*, which includes amendments to AT-C 210 on expressing adverse conclusions.

Request for Comment 8: Please provide your views on the proposed additional required documentation in a review of financial statements.

The additional documentation requirements in a review of financial statements appear appropriate.

Request for Comment 9: Are respondents supportive of the proposed effective date? If you are not supportive, please provide reasons for your response.

We agree with the proposed effective date for engagements performed in accordance with the SSARS on financial statements for periods ending on or after June 15, 2021.

Additional Issue for Consideration: Respondents are asked to comment on whether they believe that AR-C section 90 should be revised to include explicit reporting requirements and guidance with respect to correction of a material misstatement in previously issued financial statements. If so, respondents are further asked to comment on the appropriateness of the requirements and associated application guidance suggested.

D&T agrees AR-C 90 should be revised to include explicit reporting requirements and guidance with respect to correction of a material misstatement in previously issued financial statements. The requirements and guidance from AU-C 708 seem appropriate to follow.

Other Matters

D&T noted the enhanced definition of *review evidence* in paragraph 8 of AR-C 90 of the proposed ED includes the concepts of sufficiency and appropriateness of review evidence. While we understand the rationale for broadening the definition we do not believe it is appropriate at this time to include these concepts without providing a framework as to how to evaluate information to be used as review evidence. Further, the amendments in the proposed ED do not align with those in the proposed SAS, *Audit Evidence*, and may result in the definitions in the SSARS differing from those in the SASs, an untenable situation when obtaining review evidence in accordance with AU-C 930, AT-C 210, and AR-C 90 of the proposed ED. There should be a common understanding among professionals when executing review engagements as to what constitutes review evidence in our jurisdiction.