



September 18, 2019  
Accounting and Review Services Committee  
Mike Glynn- mike.glynn@aicpa-cima.com

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

Dear Committee Members:

The Illinois CPA Society (ICPAS) is a statewide membership organization, with over 24,000 professionals, dedicated to enhancing the value of the CPA profession. Founded in 1903, ICPAS is one of the largest state CPA societies in the United States of America. ICPAS represents Illinois CPAs in public accounting and consulting, corporate accounting and finance, not-for-profit, government and education organizations as well as affiliate member groups for students, educators, international professionals and related non-CPA finance professionals.

The ICPAS Audit and Assurance Services Committee (the “Committee” or “we”) is pleased to comment on the proposed Statement on Standards for Accounting and Review Services: *Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks*. The organizational and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Committee rather than any individual members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

### **General Comment**

The Committee understands and supports the overall objectives of the Accounting and Review Services Committee (ARSC) to converge SSARS with International standards and maintain consistency with certain concepts in the auditing standards. However, the Committee has certain concerns with some of the issues that the ARSC has requested the Committee address, and those issues are discussed below.

### **Questions**

#### **Request for Comment 1**

*Please provide your views on the proposed requirements for the accountant to inform management of its reasons for withdrawing when the accountant intends to withdraw from the preparation engagement. Do you believe that the proposed application guidance is helpful and enough for accountants in applying the proposed requirement?*

The Committee believes management should be informed of the reasons for withdrawing from a preparation engagement and the proposed application guidance is helpful and sufficient.

#### **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.*



The Committee believes the proposed definition of *limited assurance* appropriately defines the related concept. However, we also believe this term is currently well understood, and therefore the addition of this definition will not provide practitioners additional assistance in planning and performing high-quality review engagements.

### **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?*

The Committee believes that the addition of an explicit requirement to conduct the review with professional skepticism will add value of the review report and that the application guidance is helpful.

### **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.*

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 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.”

### **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.*

The Committee believes the additional required inquiries of management regarding undisclosed commitments, obligations, and presence of non-monetary transactions is appropriate.

### **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.*



The Committee believes the additional procedures regarding the consideration of undisclosed transactions with related parties is appropriate.

#### **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.*

The Committee does not support 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 for the following reasons:

1. The practitioners from small, medium, and large firms that represent a significant portion of the Committee membership cannot foresee a realistic instance when they or the firms they are associated with will actually issue an adverse conclusion in connection with a review engagement.
2. Adverse audit opinions are rarely seen in practice.
3. Reviews are primarily required by lenders and required by positive covenants that borrowers need to maintain to be in compliance with loan agreements. Such covenants usually require financial statements be maintained in accordance with GAAP. Companies are not likely to provide the lenders with financial statements that include an adverse conclusion and need to explain why their reviewed financial statements are not in accordance with GAAP.
4. Practitioners will be required to amend engagement letters to cover the possibility of completing the engagement by issuing an adverse conclusion.
5. Professional liability may increase as practitioners may have to defend why they chose to withdraw rather than complete the review engagement and issue an adverse conclusion.

However, should the ARSC decide to proceed with this option, we recommend the requirements in paragraph 71 related to the Basis for Adverse Conclusion paragraph also require the accountant to include language that explains that the effects of the departure on the financial statements determined by management or known to the accountant as the result of the accountant's procedures may not have identified all departures from the applicable reporting framework and the related effects on the financial statements.

#### **Request for Comment 8**

*Please provide your views on the proposed additional required documentation in a review of financial statements.*



The Committee does not believe the additional explicit documentation requirement is necessary. The Committee believes the current requirements to document significant findings, issues and conclusions reached thereon are sufficient and already compel the accountant to document explanations of any inconsistencies discovered during the course of the review engagement.

**Request for Comment 9**

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

The Committee believes the effective date of years ending after June 15, 2021 is appropriate.

**Request for Comment 10**

*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.*

The Committee believes the additional requirement to include an emphasis of matter paragraph in the accountant's review report describing a material prior period adjustment to a previously issued financial statement is appropriate and will improve the reliability of financial statements. Additionally, the Committee believes the application guidance is sufficient.

The Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

**Scott Cosentine, CPA**

Chair, Audit and Assurance Services Committee

**Genevra D. Knight, CPA**

Vice Chair, Audit and Assurance Services Committee



## APPENDIX A

### AUDIT AND ASSURANCE SERVICES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2019 – 2020

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

#### **Public Accounting Firms:**

##### **National:**

Todd Briggs, CPA	RSM US LLP
Scott Cosentine, CPA	Ashland Partners & Company LLP
Jennifer E. Deloy, CPA	Marcum LLP
James J. Gerace, CPA	BDO USA, LLP
Michael R. Hartley, CPA	Crowe LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Huong Nguyen, CPA	PricewaterhouseCoopers LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Amber Sarb, CPA	RSM US LLP
Richard D. Spiegel, CPA	Wipfli LLP
Timothy Van Cott, CPA	Sikich LLP
Daniel Voogt, CPA	Grant Thornton LLP

##### **Regional:**

Michael Ploskonka, CPA	Selden Fox, Ltd.
Genevra D. Knight, CPA	Porte Brown LLC
Andrea L. Krueger, CPA	CDH, P.C.

##### **Local:**

Timothy Delany, CPA	Pier & Associates, Ltd.
Arthur Gunn, CPA	Arthur S. Gunn, Ltd.
Lorena C. Johnson, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Carmen F. Mugnolo, CPA	Mugnolo & Associates, Ltd.
Jodi Seelye, CPA	Mueller & Company LLP



**Industry/Consulting:**

Rosi Hasan, CPA  
Sean Kruskol, CPA

Northern Trust Corporation  
Cornerstone Research

**Educators:**

Meghann Cefaratti, PhD

Northern Illinois University

**Staff Representative:**

Heather Lindquist, CPA

Illinois CPA Society