



National Association of State Boards of Accountancy

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Accounting and Review Services Committee
American Institute of Certified Public Accountants (AICPA)
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Via email: Mike.Glynn@aicpa-cima.com

Re: *Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks*

Dear Members of the AICPA Accounting and Review Services Committee (ARSC):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments to the proposed Statement on Standards for Accounting and Review Services *Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks* (the Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories which includes all audit, attest and other services provided by CPAs.

In furtherance of that objective, NASBA offers the following comments on the issues for consideration as requested in the explanatory memorandum to the Exposure Draft.

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 sufficient for accountants in applying the proposed requirement?

We agree with the proposed requirements for the accountant to inform management of its reasons for withdrawing from the preparation engagement. We also believe that the accountant should include documentation in the engagement workpapers that management has been informed of the reasons for withdrawing. The nature and extent of documentation should be at the accountant's discretion.

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.*

We believe that the proposed definition of limited assurance together with the associated proposed application guidance will assist practitioners.

We agree that ARSC should not include the concept of meaningful level of assurance as used in ISRE 2400 (Revised) in the definition of limited assurance.

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?

We support the definition of professional skepticism and the proposed explicit requirement for the accountant to plan and perform the review with professional skepticism. We agree that guidance in this area is needed and what is being proposed 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.

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 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.

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.

We support 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.

We support 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.

We support permitting the accountant to express an adverse conclusion for an engagement performed in accordance with AR-C section 90, but we would advise ARSC to provide illustrations of an adverse opinion and application guidance, to help ensure that the level of assurance being provided to the portion of the financial statements not covered by the adverse conclusion is not misinterpreted by the users of the financial statements.

We believe 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. We agree with ARSC that "it was not in the public interest to prohibit the expression of an adverse

conclusion when the accountant is aware that the financial statements are materially and pervasively misstated.”

Request for Comment 8:

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

We agree with the proposed additional required documentation in a review of financial statements.

Request for Comment 9:

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

We support the proposed effective date.

Request for Comment 10:

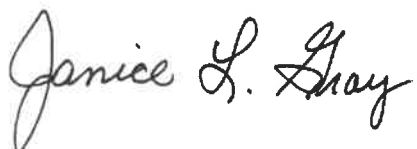
Respondents are asked to comment on whether they believe that AR-C section 90 should be revised to include explicit reporting requirements and guidance with respect to correction of a material misstatement in previously issued financial statements. If so, respondents are further asked to comment on the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

We do believe it is in the public interest that AR-C section 90 be revised to include explicit reporting requirements and guidance with respect to correction of a material misstatement in previously issued financial statements.

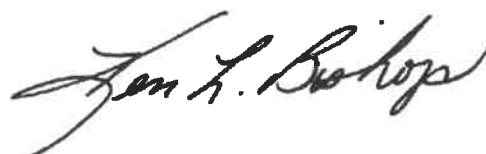
We support the proposed requirements and associated guidance and believe it appropriate that the requirements and guidance be consistent with AU-C section 708.

We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,



Janice L. Gray, CPA, CVA
NASBA Chair



Ken L. Bishop
NASBA President and CEO