

AUDITING STANDARDS BOARD (ASB)
Meeting Highlights
January 12-15, 2015
San Diego, CA

MEETING ATTENDANCE

ASB Members

Bruce Webb, *Chair*
Hunter Cook
Gerry Boaz
Jack Fuchs
Liz Gantnier
Steve Glover
Jennifer Haskell
Dan Hevia
Sandra Johnigan
Ilene Kassman
Ryan Kaye
David Miller (by phone)
Don M. Pallais
Marc Panucci
Josh Partlow
Rick Reisig
Mike Santay
Catherine Schweigel
Chris Smith

AICPA Staff

Amanda Black, *Portfolios*
Sue Coffey, *Public Practice & Global Alliances (1/13-1/14 only)*
Linda Delahanty, *Audit & Attest Standards*
Ahava Goldman, *Audit & Attest Standards*
Tom Groskopf, *Center for Plain English Accounting*
Hiram Hasty, *Audit & Attest Standards*
Laura Hyland, *Government Accounting & Auditing (1/12 only)*
Chuck Landes, *Professional Standards*
Teighlor March, *Assistant General Counsel*
Richard Miller, *Special Counsel*
Andy Mrakovcic, *Audit & Attest Standards*
Judith Sherinsky, *Audit & Attest Standards*
Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Denny Ard, *Dixon Hughes Goodman*
Sally Ann Bailey, *Deloitte & Touche LLP*
Jim Dalkin, *GAO*
Julie Anne Dilley, *PwC (by phone)*
Jan Herringer, *BDO*
Susan Jones, *KPMG LLP*
John Keyser, *McGladrey LLP*
Tammy Mooney, *Thompson Reuters (by phone)*
Jeff Markert, *KPMG (1/12 only)*
Paul Penler, *Ernst & Young LLP*

Chair's Report

Mr. Webb introduced and welcomed the new members.

Mr. Landes and Mr. Webb provided an update on matters of interest to the ASB.

The ASB approved the October highlights.

1. Other Information

Ms. Gantnier led a discussion of issues with respect to the Other Information Task Force's project to harmonize AU-C section 720, *Other Information in Documents Containing Audited Financial Statements* with ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

Ms. Kassman stated that she is concerned that the auditor's report will include a statement that the auditor will perform procedures on other information that the auditor has not yet received by the date of the report. Ms. Kassman stated that the Task Force may want to consider further clarifying the scope of the proposed SAS.

Mr. Panucci stated that the ASB should be mindful as to what the PCAOB does with respect to other information. Ms. Gantnier stated that, while the Task Force will use ISA 720 (Revised) as a base, the Task Force plans to include the proposed PCAOB standard in a mapping document so that the ASB members can compare and contrast the two proposed standards. Consistent with the ASB's policy, the Task Force's goal is to minimize differences with the proposed PCAOB standard and issue a standard that is appropriate for American auditors. Mr. Webb advised the Task Force that it is anticipated that the PCAOB will re-expose its proposed standard so it may not be productive to work off the current exposure draft.

Ms. Jones summarized the IAASB project. The IAASB included a requirement to report on other information so as to be transparent to users of the financial statements and auditor's report thereon.

Documents included in Other Information

Ms. Gantnier pointed out that paragraph .05 of AU-C section 720 defines *other information* as financial and nonfinancial information (other than the financial statements and the auditor's report thereon) that is included in a document containing audited financial statements and the auditor's report thereon, excluding required supplementary information. Paragraph 12 of draft ISA 720 (Revised) defines *other information* as financial or nonfinancial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

Ms. Gantnier further pointed out that the primary difference between the two definitions is AU-C section 720's reference to *a document containing audited financial statements and the auditor's report thereon* and draft ISA 720 (Revised)'s reference to *an entity's annual report*. Paragraph .02 of AU-C section 720 states that *documents containing audited financial statements* refers to annual reports (or similar documents) that are issued to owners (or similar stakeholders) and annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public that contain audited financial statements and the auditor's report thereon. Paragraph .12 of draft ISA 720 (Revised) defines *annual report* as a document, or combination of documents, prepared by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's

operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.

In response to a question from Mr. Pallais, Ms. Gantnier stated that the Task Force intends to retain the charitable organizations wording from extant AR-C section 720. Mr. Kaye stated that perhaps it would make sense to reach out to industry expert panels as to how they interpret the term *annual reports* and attempt to draft a definition that works universally. Mr. Webb stated that the industry expert panels can also help with the ramifications of including documents *accompanying* financial statements in the definition of annual reports. Mr. Panucci stated that the IAASB had to include documents *accompanying* financial statements because of certain jurisdictional issues. Mr. Panucci stated that strict convergence may cause issues that the IAASB had not intended. In response to a question from Ms. Schweigel, Ms. Jones stated that the IAASB included documents accompanying the financial statements in the definition of annual reports because, in certain jurisdictions, the annual report is a package of documents to owners – as opposed to one document. Ms. Jones directed the ASB members to paragraph A3 of the draft ISA 720 (Revised) which attempts to scope out documents from the definition of *annual reports*. Mr. Miller stated that while he is troubled with the concept of auditor responsibility with documents accompanying the financial statements, the issue may be solved via management's acknowledgment in the engagement letter as to what is included in other information. Ms. Gantnier stated that the Task Force will attempt to retain the spirit of ISA 720 (Revised) and draft definitions that work for the ASB constituents.

In summary, Mr. Webb stated that the Task Force should follow the following outline in preparing the draft SAS:

- 1) Define what is included in other information and annual reports and what is not included
- 2) Performance procedures
- 3) Reporting
- 4) Auditor considerations when other information is obtained after the date of the auditor's report

Inconsistency/Misstatement of Fact

Ms. Gantnier stated that AU-C section 720 defines *inconsistency* as other information that conflicts with information contained in the audited financial statements and *misstatement of fact* as other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. AU-C section 720 includes different responses when the auditor identifies a material inconsistency or a material misstatement of fact. In contrast, draft ISA 720 (Restated) does not define inconsistency or misstatement of fact and instead defines *misstatement of the other information* stating that a misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). In the explanatory material accompanying the April 2014 exposure draft, the IAASB explained that it believes that the term

misstatement of the other information better encapsulates both factual and qualitative misstatements than the terms in extant ISA 720 (which correspond to the terms in AU-C section 720).

Mr. Pallais stated that the definition of *misstatement of the other information* in the draft ISA 720 (Revised) is fatally flawed as the ASB has avoided the use of the term *misleading* in the standards as no criteria exists as to what *misleading* means. Mr. Landes stated that it is his understanding that the PCAOB shares the concern about the use of the term *misleading* and, as such, will retain the current construct. Mr. Landes stated that retaining the current construct would not result in an ISA minus scenario as long as the work effort is the same.

Obtaining the Other Information

Mr. Kaye asked whether the standard should include an option for the auditor to withhold the auditor's report on the financial statements until all other information is obtained. Mr. Webb stated that he does not believe that such an option needs to be spelled out in the standard as the auditor always has that option and that the option is not spelled out in other standards.

Mr. Webb stated that the proposed revised standard may have to include a revision to AU-C section 210, *Terms of Engagement* to include a requirement that the auditor obtain an acknowledgment from management as to what other information consists of.

Work Effort

Ms. Gantnier stated that the Task Force is concerned with the requirement in paragraph 14(a) of the draft ISA 720 (Revised) that the auditor perform comparison procedures on the selected amounts or other items to *evaluate* the consistency of the amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements. The Task Force does not believe that it is appropriate for the auditor to be required to perform evaluation procedures when no assurance is obtained or provided.

Mr. Webb stated that he is concerned with the term *selected* in the requirement. Ms. Jones stated that the IAASB included the term to make clear to auditors that they do not have to look at all amounts or items in the other information.

Mr. Santay stated that it is his understanding that the PCAOB will use the term *evaluate*. After discussion, the ASB members agreed that if both the IAASB and PCAOB use the term *evaluate* then, the proposed revised SAS should use that term as well.

Reporting

Ms. Gantnier stated that while the Task Force is supportive of the enhanced reporting requirements included in ISA 720 (Revised), it believes that the disclaimer on the other information is clearer in the illustrative optional reporting illustration in extant AU-C section 720.

Mr. Webb stated that he believes that the illustrative language in ISA 720 (Revised) is clearer and more appropriate. Ms. Gantnier stated that the Task Force will draft the proposed SAS to include the ISA 720 (Revised) reporting model.

Documentation

Ms. Gantnier stated that the Task Force questions how the auditor can document the primary procedure of reading the other information. Mr. Webb stated that he feels that many auditors will just use a checklist and he feels that the documentation requirements in ISA 720 (Revised) are appropriate.

Ms. Gantnier thanked the ASB members for their input. The Task Force intends to present a first read draft of a proposed revised AU-C section 720 at the May 2015 ASB meeting.

2. Municipal Securities

Mr. Smith, chair of the ASB Task Force (TF) addressing auditor involvement with municipal securities, led the discussion of a proposed standard on the topic.

Discussion as to Whether to Pursue a Standard

The ASB affirmed the TF's recommendation to develop a standard similar to AU-C 925, *Filings Under Federal Securities Statutes*, to address auditor involvement in municipal securities offerings; however the ASB did not affirm the TF's position to limit the scope to municipal offerings. Instead, the ASB suggested the TF explore broadening the scope of the project to potentially include other "securities", including but not limited to, offerings exempt from the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934.

When to Require Involvement

Understanding that municipal issuers (and potentially other exempt offerings) may include an auditor's report accompanying audited financial statements in official statements without obtaining the auditor's permission, the ASB acknowledged that awareness of an offering would not be sufficient to constitute involvement. Instead the discussion focused on whether the auditor has knowledge that the client is doing something with the auditor's report and that the auditor is doing something related to the offering. In terms of the triggers that may indicate involvement currently included in the AICPA Audit and Accounting Guide, *State and Local Governments* (SLG Guide), members of the ASB questioned whether, for a specific offering, signing a report for inclusion, providing written agreement for use of the report, and revising an report for inclusion would be considered "involvement" as there likely would be no engagement for these scenarios. The TF will consider this as it moves forward.

Nature of Procedures When Involved

The ASB generally agreed with the TF's suggestion that procedures similar to those required by AU-C 720, *Other Information in Documents Containing Audited Financial Statements*, and subsequent event procedures required by AU-C 925 should be considered in the development of the proposed standard.

Action Items

The TF will consider the expansion of scope from municipal offering to all exempt offerings and will report its findings to the ASB at the May 2015 meeting.

3. Attestation Standards

Don Pallais, Chair of the Attestation Task Force (task force), led the ASB in a discussion of issues related to the July 24, 2013 exposure draft *Attestation Standards: Clarification and Recodification* (ED), as well as a draft of chapters 1-4 of the ED marked from the October 21, 2014 draft. The ASB expects to finalize chapters 1-4 at its May 2015 meeting. During the discussion of chapters 1-4, the ASB directed the task force to make the following changes to the draft:

Changes to All Chapters

- Indicate that the clarified attestation standards are effective for attestation reports dated on or after May 1, 2017.
- Change all uses of “in conformity with the criteria” to “in accordance with the criteria.”
- Change “obtaining an assertion” to “requesting an assertion.”
- Add the word “Engagement” before the word “Documentation” in the heading above paragraphs 1.33, 2.78, 3.58, and 4.39

Changes to Chapter 1, “Concepts Common to All Attestation Engagements”

- Insert the following paragraph after paragraph 1.1

An attestation engagement is predicated on the concept that a party other than the practitioner makes an assertion about whether the subject matter is measured or evaluated in accordance with suitable criteria. Chapters 2 “Examination Engagements,” 3, “Review Engagements,” and 4, “Agreed-Upon Procedures Engagements,” require the practitioner to request such an assertion in writing when providing an examination, review, or agreed-upon procedures service. If the responsible party refuses to provide such an assertion, chapters 2 and 3 preclude the practitioner from expressing an opinion or conclusion. In an agreed-upon procedures engagement, if the responsible party refuses to provide a written assertion, chapter 4 requires the practitioner to communicate that refusal in the practitioner’s report

- In the definition of “engagement team” in paragraph 1.9j, indicate that an engagement quality control reviewer engaged by the firm or a network firm is not part of the engagement team.
- In paragraphs 1.A6 and 1.A7, change “auditor” to “practitioner.”
- In paragraph 1.13, replace the phrase “that do not comply with the attestation standards” with the phrase “performed under other professional standards.”
- In paragraph 1.A19 change the words “auditing standards” to “other professional standards.”

- Add an application paragraph or footnote near paragraph 1.16 indicating that (1) in some cases restricted-use reports filed with regulatory agencies are required by law or regulation to be made available to the public as a matter of public record, and (2) a regulatory agency as part of its oversight responsibility for an entity may require access to restricted-use reports in which they are not named as a specified party.
- Revise paragraph 1.26*d* to state “has reached a common understanding with the engaging party of the terms of the engagement, including the practitioner’s reporting responsibilities.”
- Change “request” to “circumstance” in paragraph 1.A53.
- Delete paragraph 1.A55
- In paragraph 1.31,
 - conform the language in the lead-in and in paragraph 1.31*a* with the language in paragraph 16 of AU-C 220, *Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*,
 - delete the word “inform” and add the words “have been informed” after the word “engagement” in bullet 1.31*c*, and
 - delete the word “direct” and add the words “have been directed” after the word “members” in paragraph 1.31*d*.
- Delete paragraph 1.A61
- Move paragraph 1.44 above paragraph 1.43 so that it is under the heading “Professional Skepticism.”

Changes to Chapter 2, “Examination Engagements” Only

- After the word “When” in the second sentence of paragraph 2.9, add “the practitioner is not independent but is required by law or regulation to accept the engagement and report on the subject matter or assertion,” and delete the words “that is the case.”
- At the end of paragraph 2.10 indicate that the responsible party’s refusal to provide a written assertion represents a limitation on the scope of the examination.
- In paragraph 2.27*c*, delete the word “substantive.”
- Move par. 2.36 to follow par. 2.38.
- Change the lead-in in paragraph. 2.36 to state, “The nature, timing, and extent of the procedures a practitioner performs when the practitioner expects to use the work of a practitioner’s specialist will vary depending on the circumstances. In determining the nature, timing, and extent of those procedures, the practitioner should consider the following: (See chapter 1.):

- In par. 2.37b(i), replace the phrase “agree with the practitioner’s specialist on” with the word “determine.”
- Agreed to add to chapter 2 paragraphs on internal audit developed by Don Pallais in response to the ASB’s October 2014 request. The paragraphs to be included in chapter 2 would be similar to those in paragraphs 1, 13, 17, 18, 23 (last subparagraph), 24, 25, 29, 30, A2, and A9 of AU-C 610 *Using the Work of Internal Auditors*. Paragraph 20 of AU-C 610 would be drafted as application guidance.
- At the end of paragraph 2.51b add “or the practitioner should withdraw from the engagement.”
- In paragraph 2.55f(ii)(1), delete the words in parentheses.
- Delete par. 2.68

Changes to Chapter 2 and Chapter 3, “Review Engagements”

- In the second sentence of paragraphs 2.8 and 3.10 add the words “revision to” after the word “require” and delete “to be revised.”
- At the end of paragraphs 2.10 and 3.12, delete the words “except when the practitioner is required by law or regulation to report on the subject matter or assertion and the responsible party is unable or unwilling to provide a written assertion.”
- In paragraphs 2.50a and 3.39a, change “responsible party” to “appropriate party,”
- In paragraph 2.50c delete the words “in paragraph 2.50a-e” and in paragraph 3.39c, delete the words “in paragraph 3.39a-c.”
- Divide paragraphs 2.58 and 3.47 into three paragraphs that will address (1) the circumstances in which use of the report should be restricted, (2) what the alert should say, and (3) what the alert should say when the engagement is also performed in accordance with government auditing standards.
- Add application guidance linked to paragraph 2.58 and 3.47 indicating that for some governmental entities, law or regulation may prohibit the practitioner from limiting the distribution of the practitioner’s report
- Determine what the practitioner’s communication responsibilities are to the responsible party regarding matters that relate only to the engaging party when the engaging party is not the responsible party, and revise paragraphs 2.A103 and 3.A76 accordingly.

Changes to Chapter 3 Only

- In paragraph 3.11 delete everything after the word “standards” if it is determined that there are no review engagements in which the practitioner is required by law or regulation to accept the engagement and report on the subject matter or assertion.
- At the end of paragraph 3.12 add a sentence indicating that if a scope limitation arises because the responsible party does not provide the practitioner with a written assertion, paragraphs 3.56 requires the practitioner to withdraw from the engagement,
- Add an application paragraph linked to paragraph 3.46*d* like the one in paragraph 2.A74
- Indicate in paragraph 3.46e(ii), that the practitioner’s responsibility is to express a conclusion.
- Move paragraph 3.A58 so that it is linked to paragraph 3.46*d*.

Changes to Chapter 4, “Agreed-Upon Procedures Engagements,” Only

- In paragraph 4.A8, delete the words “not just to the engaging party.”
- In paragraph 4.A13, delete the first two sentences.
- Indicate in paragraph 4.A13 that additional assertions would be necessary for the engagement resulting in the report in example 2 of paragraph 4.A46, for example, an assertion about cash, or in the case of a single assertion, the assertion may need to be modified to address cash
- Update the ET section reference in paragraph 4.A4
- Make the lead-in in paragraph 4.27 consistent with the lead-in in chapters 2.45 and 3.34

Mr. Pallais presented a draft of the January 18, 2014 exposure draft *Subject Matter Specific Attestation Standards: Clarification and Recodification* marked to show changes made to the draft in response to comments. The ASB discussed the draft and recommended that the following changes be made to the draft:

Chapter 5, “Financial Forecasts and Projections” (clarified AT section 301)

- Indicate in paragraph 5.30*a* that a practitioner may express a qualified or adverse opinion in an examination of prospective financial information; reinstate paragraphs 5.A30-5.A32 of the exposure draft which provide application guidance for qualified opinions.
- Change the title of proposed chapter 5 to “Prospective Financial Information.”
- In the first sentence of paragraph 5.3 change “these services” to “prospective financial information” and add the following to the list of chapters that establish the preparation and presentation guidelines for financial forecasts and financial projections: chapter 7, “Reasonably Objective Basis,” and chapter 9, “Illustrative Prospective Financial Statements.” Also delete the reference to paragraph 5.14.
- In the second sentence of paragraph 5.A1, change “the achievability” to “whether,” and insert the words “can be achieved before” the word “because.”
- In paragraph 5.A4 replace “paragraphs 4.02 to 4.05” with “chapter 4.”

- Make chapter 5 effective for examination and agreed-upon procedures reports on prospective financial information dated on or after May 1, 2017.
- Conform the language of the definitions in paragraph 5.8 to the definitions in the AICPA guide *Prospective Financial Information*, except for the definition of “financial projection” and “hypothetical assumption” which have been revised to align with certain changes introduced in chapter 5.
- Move paragraph 5.9 to the introduction section.
- In paragraph 5.A7, change “Paragraph 23.3 to “chapter 23.”
- Revise paragraph 5.A9 to clarify the types of financial statements that are considered prospective financial statements (complete, condensed, and summarized) and indicate that presentations that omit one or more relevant elements are defined as partial presentations.
- Revise the lead-in in paragraph 5.11 to state, “Unless required by law or regulation to do so, a practitioner should not accept an engagement to examine.” In paragraph 5.11*a*, replace “disclose the” with “include a summary of significant.”
- In the first sentence of paragraph 5.12, insert the words “one or more” before the first use of the word “assumptions” and delete the second sentence of that paragraph.
- Delete paragraph 5.13.
- In paragraph 5.14, change “be familiar with” to “understand,” and delete the reference to paragraph 5.3.
- At the end of the first paragraph 5.15,¹ replace “statements that are in appropriate form for” with “information that is appropriate for.”
- In the first paragraph 5.17,¹ change “future financial results are” to “prospective financial information is,” and move the paragraph closer to the first paragraph 5.15.¹
- In the second paragraph 5.15,¹ and in paragraphs 5.A15 and 5.A16, delete the words “Financial forecast,” after the paragraph number.
- In the second paragraph 5.17,¹
 - in the first sentence, add the word “significant” before the word “assumptions,” and the words “individually and in the aggregate” after the word “assumptions”.
 - insert the following sentence after the first sentence: “Assumptions are suitably supported if the preponderance of the information supports each significant assumption,”
 - delete the word “financial” in the second sentence of the paragraph.
- Delete the first sentence of paragraph 5.A17 and in the second sentence, delete the word “Rather” and replace “tends to” with “supports.”
- Delete the second paragraph 5.18.¹
- Clarify paragraph 5.20 and the related application guidance.
- In paragraph 5.A22, change “are” to “become.”
- In paragraph 5.27, add a bullet requiring that the report identify the criteria.
- In paragraph 5.27eii, change “identified criteria” to “AICPA presentation guidelines.”
- In paragraphs 5.29 and 5.A33, change “explanatory” to “separate.”
- Delete paragraph 5.33.
- Revise paragraph 5.35kiii to state “Accordingly, the practitioner does not express an opinion or conclusion on

¹ The terms “first paragraph” and “second paragraph” are used here because paragraph numbers 5.15- 5. 19 were repeated in error.

- (1) whether the presentation of the prospective financial statements is in conformity with AICPA presentation guidelines
 - (2) whether the underlying assumptions are suitably supported and
 - (3) whether the underlying assumptions provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions.
- In the second paragraph of the illustrative reports in paragraph 5.A40, change “identified criteria” to “AICPA presentation guidelines.”
 - Change the word “statements” to “information” in
 - the lead-in to paragraph 5.A12 and in bullets *g*, *h* and *i*.
 - bullets *d* and *e* of the first paragraph 5.18¹
 - the lead-in to paragraph 5.21 and in bullets *e* and *f*.
 - the lead-in to paragraph 5.22
 - paragraph 5.29.

Chapter 6, Reporting on Pro Forma Financial Information (clarified AT 401)

- Move paragraph 6.7 to the introduction section.
- Conform the language in paragraphs 6.8*b-c*, 6.9, 6.A9, 6.11, 6.12*b*, 6.16*g*, 6.17*gii*, and 6.A18 with the language in the paragraphs in AU-C 920, *Letters for Underwriters and Certain Other Requesting Parties*, related to pro forma financial information.
- Make chapter 6 effective for examination and review reports on pro forma financial information dated on or after May 1, 2017.
- Add the following sentence at the end of par 6.A8: “Paragraph 3 of AU section 722 indicates that although AU section 722 does not require an accountant to issue a written report on a review of interim financial information, the SEC requires the report to be filed if, in any filing, the entity states that the interim financial information has been reviewed by an independent public accountant.”
- Insert “and that the pro forma column reflects the proper application of those adjustments to the historical financial statements” at the end of the third bullet in paragraph 6.13.
- In paragraph 6.16*jii*, change “information reflects” to “amounts reflect.”
- In paragraph 6.16*jiii* (1), insert “underlying” before the word “transaction.”
- In paragraph 6.17*jii* (3), change “financial information in order for it” to “amounts in order for them.”

Chapter 7, Compliance Attestation (clarified AT section 601)

- Move paragraph 7.8 to the introduction section.
- Make chapter 7 effective for examination and review reports on pro forma financial information dated on or after May 1, 2017.
- Delete the last sentence in paragraph 7.A7
- Delete paragraph 7.A9
- Move representation *d* in paragraph 7.17 to the list of required representations in chapter 2, “Examination Engagements”

The task force will revise the draft to reflect the ASB's recommendations and present a revised draft of chapters 5 through 7 at the May 2015 ASB.

4. Auditor's Reports – FROM LINDA

Mr. Santay, chair of the Auditor Reporting Task Force, led the ASB in a discussion of the issues relating to the development of an auditing interpretation for auditor reporting on an audit conducted in accordance with both auditing standards generally accepted in the United States of America (GAAS) and the new and revised auditor reporting International Standards on Auditing (ISAs), and the auditor intends to refer to both sets of standards.

Issue 1 – Layout and Wording of the Auditor's Report Under GAAS

The ASB agreed with the task force that GAAS specifies certain aspects of the layout and wording of the auditor's report and therefore paragraph 50 of ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* would apply when the auditor conducts an audit in accordance with GAAS and has additionally complied with the ISAs in the conduct of the audit.

Issue 2 – Going Concern

The ASB discussed the need for the financial reporting framework to be considered when developing the wording for the auditor's report relating to management's responsibilities for assessing the entities ability to continue as a going concern and the auditor's responsibilities related to going concern.

The ASB directed the task force to revise the illustrative auditor's report to reflect current accounting principles generally accepted in the United States of America (GAAP) and to develop a new auditor's report illustration when dual reporting on financial statements prepared under IFRS.

Other

The ASB also directed the task force to:

- Revise the illustrative auditor's report to cover a group audit situation
- Add a text box at the top of the draft interpretation to include a general description of the new standards, why they were developed, and the effective date and provide the assumptions used in developing the interpretation, including that FASB ASC 205-40 *Going Concern* has not been adopted
- Include background information in the response to convey how GAAS specifies layout or wording
- Consider limiting the discussion of the minimum required elements from ISA 700 (Revised) to only those that are incremental to what is already required by GAAS

- Include communication of both significant deficiencies and material weakness in the auditor's responsibilities section of the report
- Make various editorial changes

5. Quality Control/Enhancing Audit Quality

Ms. McNerney provided an update to the ASB of the responses to the AICPA's Enhancing Audit Quality Initiative discussion paper. The responses expressed concerns about competency and engagement acceptance, and suggested requiring, for specified engagements, mandatory engagement quality control reviews (EQCR) and enrollment in audit quality centers. The responses also expressed the need to make the peer review process more effective in driving changes at deficient firms.

Ms. McNerney stated that the Task Force identified a need to raise awareness of the QC standards. The IAASB has a project on QC standards and is discussing the same issues; they have not yet established a timetable for their project.

Ms. Coffey stated that we know the profession has quality problems, especially on specialized industries. Responses to the discussion paper indicate that, in addition to a robust peer review process on the back end, addressing acceptance and continuance is necessary to solve the problems at the front end. She asked if the standards are clear to drive behavior. The discussion covered the following points:

- The role of an engagement quality control review (EQCR) in enhancing audit quality.
 - Ms. McNerney noted that EQCR is a quality control procedure over engagement performance procedure. Because the EQCR reviewer is not part of the engagement team, an EQCR is not the first line of defense; getting a more competent engagement team is necessary.
 - Ms. Haskell stated that while an EQCR is not a cure-all, EQCR is a good practice. She is concerned that the interpretations undervalue the EQCR. This has surfaced because of situations with specialized or regulated industries; is the problem widespread or should the interpretation be directed at audits of those industries?
 - Many firms confuse an EQCR with a "desk review" of the engagement.
- The nature of audit deficiencies.
 - Many are lack of basic audit competencies, due to practitioners that take on engagements that they are not qualified to perform (for example, tax practitioners who accept audit engagements).
 - Some are due to difficult subject matter.
- The difficulty of assessing competency.
 - Self-assessment of competency is difficult
 - Peer reviewers have been reluctant to conclude that practitioners are not competent but the process is being changed to address that.

Ms. Coffey noted that the answer may be that we can't change the front end, only implement more meaningful and timelier corrective action.

Ms. Goldman described the three interpretations to QC section 10 that had been circulated to the ASB and the comments received. In response to the question of why these particular interpretations, Ms. McNerney stated that peer review thinks this would be helpful to them; these are in response to the original question of identifying missing "hooks" in QC standards. The ASB was asked if there is anything that could be better asked or answered. Ms. Haskell suggested defining what is meant by the requirement in AU-C 220 to be satisfied about competency. The ASB provided feedback on specific interpretations. Mr. Landes challenged the need for interpretations. He believes that the standards contain the necessary requirements and peer reviewers could be better trained to challenge firms that argue otherwise. Ms. Coffey challenged application material that suggests that CPE is sufficient to provide competency.

The ASB discussed credentialing to perform audits of specialized or regulated industries, such as governmental audits. The CPA license is the credential to perform any audit; however the AICPA MLC (Member Learning Competency) Team has been considering badging programs. Badging is achieved through testing and is only for a set period. Ms. Goldman noted that some states (for example, Oregon and New Jersey) only permit municipalities to select auditors from a roster of those that have met state qualifications. Mr. Fuchs noted that there is an equivalent in the legal profession, for example, the lead lawyer needs previous experience in a capital punishment case.

Mr. Webb stated that the ASB is reluctant to open up the QC standard in advance of the IAASB. The ASB is willing to help peer review by issuing interpretations, but based on the comments the interpretations need revision. Ms. McNerney informed the ASB that the Task Force will revise and recirculate on the three interpretations to QC section 10 that had been circulated to the ASB.

Ms. McNerney stated that the QC Task Force is looking to enhance the practice aid. Ms. Goldman will work with other AICPA teams, such as the Communications and MLC teams, on getting the message to the right people, through blogs, conferences, and courses. Ms. Coffey stated that the AICPA is working with NASBA and the state boards of accountancy on the future of learning. An output-based model is being considered for licensure renewal, to replace the input-based model of a certain number of CPE hours per year.

Mr. Glover stated that there are multiple causes for lack of audit quality and there is no one fix. Multiple actions are necessary; interpretations are not sufficient but contribute to the solution. Ms. Haskell agreed and stressed the importance of "carrying a big stick".

The ASB met with the PCPS Technical Issues Committee (TIC) and discussed issues of mutual interest. The ASB met with the Assurance Services Executive Committee (ASEC) and discussed issues of mutual interest.