

AUDITING STANDARDS BOARD (ASB)
Meeting Highlights
May 12-15, 2015
Baltimore, MD

MEETING ATTENDANCE

ASB Members

Bruce Webb, *Chair*

Hunter Cook

Gerry Boaz

Jack Fuchs

Liz Gantnier

Jennifer Haskell

Dan Helva

Sandra Johnigan

Ilene Kassman

Ryan Kaye

David Miller

Don M. Pallais

Marc Panucci

Josh Partlow

Rick Reisig

Mike Santay

Catherine Schweigel

Chris Smith

AICPA Staff

Amanda Black, *Portfolios*

Linda Delahanty, *Audit & Attest Standards*

Mike Glynn, *Audit & Attest Standards*

Ahava Goldman, *Audit & Attest Standards*

Hiram Hasty, *Audit & Attest Standards (5/15 only)*

Laura Hyland, *Government Accounting & Auditing (5/13 only)*

Chuck Landes, *Professional Standards*

Teighlor March, *Assistant General Counsel (by phone)*

Richard Miller, *Special Counsel*

Andy Mrakovic, *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*

Kia Bickel, *Johnson Lambert LLP*

Jim Dalkin, *GAO (5/15 only)*

Harrison Greene, Jr., *Federal Deposit Insurance Corporation*

Absent Joseph Griffin, *PricewaterhouseCoopers LLP* (by phone, 5/13 only)

Steve Glover Eric Holbrooke, *GAO*

Jan Herringer, *BDO*

Susan Jones, *KPMG LLP*

John Keyser, *McGladrey LLP*

Tammy Mooney, *Thompson Reuters*

Dave Palmer, *KMPG*

Paul Penler, *Ernst & Young LLP*

Laura Schuetze, *Grant Thornton*

Kevin Stout, *Securities and Exchange Commission*

Chair's Report

Mr. Webb and Mr. Landes provided updates on matters relevant to the ASB.

The ASB acknowledged with sorrow the passing in March of Julie Ann Dille, technical advisor to the PricewaterhouseCoopers ASB member and former AICPA staff.

The ASB approved the January highlights.

1. Integrated Audits

Don Pallais led the ASB in a discussion of comments received on exposure of the proposed SAS, *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements*.

The ASB discussed the following issues and did not direct the Task Force to make any changes:

- Clarifying whether an integrated audit can be performed by two different auditors. The FDICIA requires only one auditor.
- Adding a description of inherent limitations of ICFR to the auditor's report.
- Adding the concept of timeliness to the definition of detective control.
- The use of the phrase "provide no assurance" in paragraph A126. This phrase is used in the illustrations in AU-C section 730, *Required Supplementary Information*.
- Identifying, aggregating and communicating deficiencies in an equity method investee in an audit of ICFR.

The ASB discussed the use of *significant* as compared to *material*, as well as *class of transactions*, and directed staff to consider a project to address the consistency of the use of these terms within GAAS.

The ASB directed the task force to make the following revisions:

Par No.	Text
1	Delete " when, and" from phrase "when and only when "
2	Delete "planning and" from phrase "planning and performing."
4a	Delete "thereby enabling the auditor to express an opinion on whether effective ICFR was maintained, in all material respects, based on the criteria;" and inserted "and if so, whether all have been identified; ". Consider the use of the term "Management's assessment about the effectiveness of ICFR".
4b	Change "report on ICFR, and communicate" to "express an opinion on the effectiveness of ICFR in a written report, and communicate with management and those charged with governance"; "GAAS, in accordance with" to "this section, based on".
A15	Add paragraph addressing availability of criteria
A17 (A14a)	Change "for purposes of this proposed standard, the auditor is concerned only with ICFR" to "this proposed standard is focused only on ICFR"
8	Revise to be more consistent with wording in clarified attest standards, but retain the word "assessment" for consistency within this proposed standard. "obtain a written assessment from management" changed to "request from management a written assessment"; deleted "If management imposes a scope limitation by refusing and inserted "Management's refusal"; delete "despite its initial agreement to do so" and inserted "represents a scope limitation and"
18, A26	Move from after following paragraph
23	Delete "The auditor is required to obtain an understanding of internal control relevant to the audit"
A44	Delete "whether" from each bullet
24	Last bullet, delete "including disclosures"
A63, A73, A75	Delete "recalculation"

- A71 Add “the frequency of operation of the control, whether the control is an IT application control,”
- A72 Delete “The absence of misstatements detected by substantive procedures, however, informs the auditor’s risk assessments in determining the testing necessary to conclude on the operating effectiveness of a control.”
- A75 Insert “the application of” before “specific controls”
- A87 Insert new paragraph to provide guidance on the importance of considering findings from both audits
- 50a, 50b Move back to follow par. 52
- A94c Delete in entirety
- 61 Move “the auditor is not required to make the written communications by the report release date” to the end of the sentence.
- 62 Change “material weaknesses, significant deficiencies and other deficiencies that, in the auditor’s professional judgment, are of sufficient importance to merit management’s attention” to “all deficiencies”, to indicate that once a deficiency is identified as such, the concept of “trivial” is not applicable.
- A109 Delete “, in the auditor’s professional judgment, are of sufficient importance to merit management’s attention but”
- 67a, A110 Move from requirement to application material
- A103 Delete since it only refers to another paragraph and the paragraph referencing in par. 64 to A103 and A110, and the paragraph sequencing of A103 and A110, was problematic
- A111 Reverse order of sentences in paragraph
- A113, A118 Change forward reference in A113 to backwards reference in A118, as A118 repeats A113.
- 53, 54 See 50a, 50b above
- A119 Insert “ in determining whether to accept, or in performing, the financial statement audit”
- 81, A119 Delete A119 and insert new paragraph 81
- A127 Revise A118 and re-order
- A126 Change “were not engaged to” to “did not”
- App A Move to Exhibit, not Appendix
- A151 AU-C 200, A1: delete last sentence
- A151 AU-C 256, definition of material weakness: insert “over financial reporting”; added
- Exhibit C Insert description of the inherent limitations of ICFR, using wording from definition of ICFR in paragraph 5.

The Task Force will bring a revised draft in July.

2. Auditor's Report—PCAOB

The ASB discussed a possible amendment to AU-C 700, *Forming an Opinion and Reporting on Financial Statements*, to address the layout and wording of the auditor's report for audits conducted in accordance with both auditing standards generally accepted in the United States of America (GAAS) and the auditing standards of the Public Company Accounting Oversight Board (PCAOB) when the audit of the entity is not within the jurisdiction of the PCAOB. The ASB expressed support for an amendment that would be applicable regardless of whether an audit under PCAOB auditing standards is required by law or regulation or the financial statements are to be filed or furnished with the SEC. Such amendment would permit the use of the layout and wording specified by the PCAOB for the auditor's report amended to indicate that the audit was also conducted in accordance with GAAS. The proposed amendment will be brought to the ASB in July.

3. Attestation Standards: Clarification and Recodification

Don Pallais, Chair of the Attestation Task Force (task force), led the ASB in a discussion of drafts of chapters 1-4 of the proposed clarified attestation standards that were marked from the drafts presented at the January 12-15, 2015 meeting.

During the discussion, the ASB directed the task force to make the following changes to the drafts:

Changes to Chapter 1, "Concepts Common to All Attestation Engagements"

- In paragraph 1.2 change "providing" to "performing," change "service" to "engagement," and clarify that in an examination or review engagement, the responsible party's refusal to provide a written assertion results in a scope limitation.
- Add the words "by those charged with governance, management, or employees of the entity" at the end of the definition of "noncompliance with laws or regulations" in paragraph 1.10r.
- Delete the words "sufficient appropriate" from the definition of "practitioner's specialist" in paragraph 1.10u
- Delete paragraph 1.A27 and include it in chapters 2, 3, and 4.
- Make paragraph 1.25b(ii) an application paragraph.

Changes to Chapter 2, "Examination Engagements"

- Add the following generic definition of the term “tests of controls” in paragraph 2.4 of chapter 2 because that term is used in chapter 2 but defined only in chapter 8 in the context of a service auditor’s engagement:

A procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements in the subject matter.

- After the word “criteria” in paragraph 2.3b(i), add the words “in all material respects.”
- In the last sentence of paragraph 2.9, add the word “current” before the word “engagement” in the phrase “terms of the engagement.”
- In paragraph 2.10 delete the first sentence and delete the words “in either case” in the second sentence. Add a reference to the paragraph in chapter 2 that discusses scope limitations.
- In paragraph 2.A5 add a bullet that states “the subject matter is presented fairly, based on the criteria.”
- In paragraph 2.A6 replace the words “referred to in“ with the words “covered by.”
- At the end of paragraph 2.A7, add the words “unless a separate written assertion is called for by the engagement circumstances.”
- In paragraph 2.28 replace the word “values” with “amounts or ratios.”
- In the last 3 bullets of paragraph 2.32, add the phrase “with laws or regulations” after the word “noncompliance.”
- Delete paragraph 2.A43.
- Revise paragraph 2.40 so that the wording is closer to that in paragraph 22 of AU-C 610, *Using the Work of Internal Auditors*.
- In paragraph 2.42, after the word “engagement,” add the words “including when using the work of the internal audit function.”
- In paragraph 2.51 delete the words “whether or not the engaging party is the responsible party,” and insert the word “still” before the word “applies.”
- Throughout the document, revise the language regarding the opinion to state that “the subject matter is in accordance with [or based on] the criteria, in all material respects.” Also delete the phrase “free from material misstatement.”
- Throughout the document, revise the language regarding the assertion to state that “the assertion is fairly stated in all material respects.”

- In paragraph 2.57, after the word “information,” revise the lead-in to the bullets to state “in the practitioner’s professional judgment” and revise the bullets to flow from that revised lead in.
- Revise paragraph 2.62e(i) so that it reads, “the responsible party and its responsibility for the subject matter based on the criteria, or for the assertion.”
- Revise paragraph 2.62 f(ii)(2) to state “the responsible party’s assertion is fairly stated, in all material respects.
- In paragraph 2.A79 and paragraph 2.A84, add a bullet stating “the subject matter is presented fairly in all material respects, based on the criteria.”
- After the word “including” in paragraph 2.62l, insert the words “evidence that” and the following two bullets:
 - (i) the attestation documentation has been reviewed,
 - (ii) if applicable, the written presentation of the subject matter has been prepared, and
- Delete paragraph 2.A96.
- In paragraph 2.80, replace the words “or deviations from” with “based on” and change the word “report” to “opinion.”
- Before the word “internal” in paragraph 2.83, insert the words “when relevant to the subject matter.”

Changes to Chapter 3, “Review Engagements”

- Delete paragraph 3.8.
- Delete the second bullet in paragraph 3.A5.
- At the beginning of paragraph 3.12, insert the words “In such circumstances.”
- In paragraph 3.A31b delete the words “materially misstates” and replace them with “results in a material misstatement of.”
- In the second bullet of paragraph 3.A61, delete the word “control” both times.
- In paragraph 3.46f(iii), indicate that in an examination engagement the practitioner obtains reasonable assurance about whether the subject matter is “in accordance with [or based on] the criteria in all material respects, or the assertion is fairly stated in all material respects].”

- In paragraph 3.51, delete the words “In this circumstance” and replace them with “If the misstatement is not corrected.” Before the word “standard,” add the words “conclusion in the.”
- In paragraph 3.55, delete the words “and provide no further services with respect to the subject matter.”
- Delete the first sentence of paragraph 3.A78
- Delete paragraph 3.A79.
- In the first sentence of paragraph 3.57, replace the word “report” with “conclusion.”
- In all of the illustrative reports in paragraph 3.A88, title each of the reports “Independent Accountant’s Review Report.”
- In the second paragraph of example 2 in paragraph 3.A88, delete the words “free from material misstatement” and insert “fairly stated.”
- In the last paragraph of example 3 in paragraph 3.A88, insert the words “[or based on]” after the word “with.”

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

- In paragraph 4.A12, change “referred to in” to “covered by;” delete the words “or equivalent representation.”
- Revise the first sentence in paragraph 4.A13 to state “Paragraph 4.27a requires the practitioner to request a written representation from the responsible party that is the same as the responsibly party’s assertion.”
- In paragraph 4.A14, replace “if” with “whether.”
- In paragraph 4.15, change, “communication of the terms of the engagement” to “agreement.”
- In paragraph 4.A24, insert the words “the involvement” after the word “regarding” and insert the word “external” before the word “specialists.”
- Insert a paragraph requiring that the practitioner request from the engaging party the same representations listed in paragraph 2.52.
- Conform the language in paragraph 4.A33 to the language in paragraph 4.A35.
- Conform the language in paragraph 4.33f with the language in paragraph 2.62e(i).
- Change the paragraph reference in paragraph 4.33l from 4.33l to 4.33k.

- In the first sentence of paragraph 4.40, indicate that the practitioner should communicate fraud or suspected fraud and noncompliance with laws or regulations.
- Revise the language in paragraph 4.41b(iii) to parallel paragraph 2.85a(iv)
- In example 2 of paragraph 4.A49,
 - change the title of the report to “Agreed-Upon Procedures Related to Cash and Accounts Receivable,”
 - move item 1a to paragraph 2, and
 - change “traced” to “selected” in paragraph 5.

After the ASB discussed chapters 1-4, Chuck Landes, AICPA Vice President, Professional Standards and Services, discussed an issue raised by the AICPA Sustainability Task Force, which is drafting a chapter of the proposed attestation standards that addresses sustainability engagements. The issue relates to large measurement uncertainty in the measurement of certain subject matters, and the belief by the Sustainability Task Force that chapters 2 and 3 of the proposed clarified attestation standards should be revised to require the practitioner to evaluate the adequacy of disclosure in the presentation of the subject matter or in the responsible party’s assertion, even when such disclosure is not called for by the criteria. Mr. Landes indicated that such a change would delay the issuance of the clarified attestation standards because of the need for further ASB deliberation, and might require re-exposure because the concept of disclosure beyond that called for by the criteria does not exist in the July 2013 and January 2014 exposure drafts. Initially, the ASB agreed that the finalization of the general attestation standards should not be delayed to consider this issue and that the proposed changes to chapters 2 and 3 should be included in the exposure draft of the sustainability chapter. After further consideration, the ASB concluded that it would like to hear additional information about the issue raised by the task force and would defer voting on chapters 1-4 until the July 21-23, 2015 ASB meeting when the task force will present the issue.

The ASB concluded that after the recommended revisions are made to chapters 1-4, they should be sent to the ASB in early June for fatal flaw review to provide the ASB with sufficient time to consider the drafts and submit changes they believe are needed. The staff will revise the chapters to reflect the ASB’s comments and redistribute the revised drafts for the July 21-23, 2015 ASB meeting. This process will enable the ASB to be prepared to vote at its July 21-23 meeting, on whether chapters 1-4 should be issued as final standards.

Change to All of the Subject-Matter Specific Chapters

- Throughout the chapters, use the following model for the practitioner’s opinion: “The subject matter is in accordance with [or based on] the criteria in all material respects;” When reporting on the assertion, the model is “The assertion is fairly stated in all material respects.”

Changes to Chapter 5, “Prospective Financial Information”

- In paragraph 5.A9, change “paragraph 8.06” to “chapter 8” and change “omit” to “exclude”
- In paragraph 5.11*a*, replace “that does not include a summary of” with “unless management has agreed to disclose the.”
- In paragraph 5.11*b* replace “that does not disclose” with “unless management has agreed to identify” and replace “does not” with “and to.”
- Delete the first sentence in paragraph 5.12 and add, “A practitioner should not examine a forecast or projection that discloses none of the significant assumptions. If after accepting the engagement the practitioner determines that the forecast or projection discloses none of the significant assumptions, the practitioner should withdraw from the engagement, unless required by law or regulation to report on the financial forecast or projection.”
- Insert the following two paragraphs after revised paragraph 5.12

If after accepting the engagement, the practitioner determines that the forecast or projection fails to disclose one or more assumptions that, in the practitioner’s professional judgment, at the time, are significant, the practitioner should describe the assumptions in the practitioner’s report and express an adverse opinion.

If after accepting the engagement the practitioner determines that the projection fails to identify which of the assumptions are hypothetical or to describe the limitations on the usefulness of the projection, the practitioner should withdraw from the engagement, unless required by law or regulation to report on the projection.

- Review paragraph 5.A13 to determine whether the phrases “prospective financial information” and “prospective financial statements” have been used correctly.
- Add a paragraph after paragraph 5.21 that states, “The practitioner should evaluate the assumptions related to an expired portion of the prospective period.”
- In paragraph 5.28*d* add the word “financial” before the word “projection”
- Combine paragraphs 5.28*g* and *j* and insert the words “A statement that” at the beginning of the paragraph.
- After the word “including” in paragraph 5.28*n*, insert the words “evidence that” and the following two bullets:
 - (i) the attestation documentation has been reviewed,
 - (ii) the prospective financial information has been prepared, and

- In paragraph 5.A34 change “reader” to “user.”
- In paragraph 5.A36, change “modification” to “qualification.”
- Combine paragraphs 5.35f and g and conform it to paragraph 5.28e
- Revise the lead in to paragraph 5.35k to state “A statement that.”
- In paragraph 5.35k(ii) change “subject matter” to “prospective financial information.
- In paragraph 5.35k(iii), delete the word “Accordingly”
- Conform the restricted-use language in paragraph 5.35p to the language in paragraph 4.33k.
- In paragraph 5.35s, place the words “the practitioner completed the procedures and determined the findings” in a bullet and insert the following three bullets:
 - (ii) the attestation documentation has been reviewed,
 - (iii) the prospective financial information has been prepared, and
 - (iv) the responsible party has provided its written assertion
- In example 2 of paragraph 5.A43, make the word “assumption” plural throughout the illustrative report.

Changes to Chapter 6, “Reporting on Pro Forma Financial Information”

- Delete footnote 1
- Delete the third sentence in paragraph 6.A8.
- In paragraph 6.9 insert the word “each” before the word “constituent.”
- In paragraph 6.A11 replace the word “each” with the words “a significant.”
- Determine whether the knowledge and work required of the practitioner in an examination of pro forma financial information for a combined entity, should mirror AU-C 920, *Letters for Underwriters and Certain Other Requesting Parties*, or extant AT 401, *Reporting on Pro Forma Financial Information*.
- Insert the words “on the pro forma financial information” after the word “conclusion” in paragraph 6.17i (ii)

- Conform paragraph 6.A22 to paragraph 6.A18.
- Make the following changes to the illustrative reports in paragraph 6.A24,
 - In example 1 in the second and third paragraphs, insert the word “underlying” before the word “transaction,” and in the second paragraph, insert the word “related” before the first use of the word “pro forma.”
 - In example 2 in the second paragraph, insert the word “underlying” before both mentions of the word “transaction” and insert the word “related” before the third use of the word “pro forma.”
 - In example 3 in the first paragraph, delete the word “financial” before the word “condensed;” in the second paragraph, insert the word “underlying” before the word “transaction,” insert the word “related,” before the first use of the word “pro forma,” delete the word “professional,” delete the phrase “and involve examining evidence about the pro forma financial information”, and insert the words “on the pro forma financial information” after the word “misstatement.”
- After the word “including” in paragraph 6.16*p*, insert the words “evidence” and after the word “that” insert the following two bullets:
 - (i) the attestation documentation has been reviewed,
 - (ii) the pro forma financial information has been prepared, and

Changes to Chapter 7, “Compliance Attestation”

- Align the headings in the subject matter chapters so that they are consistent.
- Change the word “conditions” to “preconditions” in the heading above paragraph 7.9 and 7.A6.
- In paragraphs 7.13 and 7.23, delete the words “when applicable.” Also delete item “d” and add an application paragraph stating, “In certain circumstances, the practitioner may determine that it is necessary to discuss the specified requirements with appropriate individuals outside the entity (for example, a regulator or specialist).”
- Make paragraph 7.19*f* (iv) a separate lettered subparagraph following subparagraph 7.19*g* and insert the words “A statement that” at the beginning of the new subparagraph.
- Add the word “identified” before the word “criteria” in paragraph 7.19*i* (1).
- Conform the restricted-use language in paragraph 7.19*j* to the language in paragraph 2.33*k*.
- After the word “that” in paragraph 7.19*m*, insert the following bullet:
 - “i. the attestation documentation has been reviewed and.”

Place the following words in a second bullet, “the responsible party has provided a written assertion.”

- In paragraph 7.A20 delete the word “modified” before “report.”
- Conform the lead-in in paragraph 7.16 and 7.24 to the lead-in in paragraph 2.50.
- Revise the lead-in in paragraph 7.26j to say “A statement that.”
- Insert the word “practitioner’s” before the word “report” in paragraph 7.26k(iii)
- Conform the restricted-use language in paragraph 7.26k to the language in paragraph 4.33k.
- In the third sentence of the second paragraph of example 1 in paragraph 7.A33, change “An examination includes” to “An examination involves;” in the fourth sentence, delete the word “professional” before “judgment,” and delete the phrase “and involves examining evidence about compliance with the specified requirements.”

4. ERISA

Due to lack of time this agenda item was not discussed.

5. Service Organizations

Joe Griffin, Chair of the Service Organizations Task Force, led the ASB in a discussion of revisions to proposed Statement on Standards for Attestation Engagements (attestation standard) entitled *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting: Clarification and Recodification* (ED) that incorporate certain changes recommended by those who commented on the ED. During the discussion of the draft, the ASB recommended that the following changes be made to the ED and that a revised draft be brought to the July 21-23, 2015 ASB meeting:

- Move paragraph 8.3 to the requirements section, and reword it to say that the service auditor should report directly on the subject matter.
- In paragraph 8.A4, revise the lead-in to state “The following are examples of such matters,” and delete the rest of the lead-in.
- Conform the effective date in paragraph 8.6, to the effective date in the other chapters of the proposed clarified attestation standards

- Align the definition of “deficiency in internal control” in paragraph 8.8*f* with the definition in paragraph 7 of AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
- In the “Definitions” section in paragraph 8.8, provide a definition of the terms “type 1 report” and “type 2 report.”
- Clarify that the definition of “tests of controls” in paragraph 8.8*o*, does not include tests of the suitability of the design of controls.
- Clarify that the service auditor’s report referred to in in paragraph 8.A19, is a single service auditor’s report that includes both the service organization and the subservice organization.
- In paragraph 8.13*c*, move the words “in the case of a type 2 report” to the end of the sentence.
- In paragraph 8.A24, change “appropriate” to “applicable,” and in the last bullet, insert the word “customer” before the word “statements.”
- In paragraph 8.17, change “obtain” to “request.”
- Consider how the service auditor should respond if management does not have documentation of its identification of risks, which paragraph 8.26*a* requires the service auditor to obtain.
- Revise the last bullet in paragraph 8.A30 as follows:

When a separate type 1 or type 2 report exists for a subservice organization,
~~D~~etermining whether controls are necessary, either at the service organization or at user entities, to address relevant complementary user entity controls ~~assumed~~ identified in ~~the design of the~~ a carved-out subservice organization’s description of its system
- Delete paragraph 8.A31
- Delete the last bullet in paragraph 8.A39
- Simplify paragraph 8.A45 by breaking it into two sentences.
- In paragraph 8.A58, delete the words, “this chapter does not permit;” insert the words “is not permitted” after the word “auditor;” and delete the phrase “in order to avoid concluding that a scope limitation exists.”
- In paragraphs 8.38*o* and 8.39*o*, indicate that obtaining sufficient appropriate evidence also includes evidence that (1) the attestation documentation has been reviewed and (2)

management of the service organization has prepared its description of the service organization's system.

- Revise paragraph 8.A66 based on notes to be provided by Ryan Kaye
- Permit the task force to determine whether to retain Exhibit C, "Assessing the Suitability of the Criteria," in chapter 8. If it is deleted, it should be included in the guide
- Prepare an analysis of the differences between the requirements in proposed chapter 8 and those in International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*.

6. Municipal Securities

Mr. Smith, chair of the ASB Task Force (Task Force) addressing auditor involvement with municipal securities (and other non-registered securities), led the discussion of a few key issues related to a proposed standard on the topic.

Expansion of Scope

Based on feedback provided during the January 2015 ASB meeting, the Task Force proposed a revised scope to include both non-registered securities and franchise offerings. Originally the Task Force had focused solely on municipal securities. The ASB tentatively concluded that expanding the parameters to include both non-registered securities and franchise offerings is appropriate. The ASB directed the Task Force to consider the following in its development of a draft standard:

- citing the auditor's report directly in the scope (exploring "included" versus "incorporated by reference"),
- refining terminology (*exempt* versus *exempt from registration*), and
- evaluating the list of non-registered securities for completeness (e.g., adding Regulation S offerings).

Two Benchmark Model

The Task Force proposed two benchmarks to require involvement:

- a. The financial statements on which the auditor's report was (or to be) issued are included in or incorporated by reference into the offering document, and

- b. The auditor performs one of the defined trigger activities.

The ASB generally supported the two benchmark model. In the discussion of the trigger activities, some members voiced concern about whether a member could unsuspectingly end up in the standard. However, the ASB generally agreed that the triggers either result in an engagement or an acknowledgement that the auditor's report will be used in an offering. As to whether awareness/acknowledgement triggers are appropriate, the general consensus was that acknowledgement driven triggers expose the auditor to liability under securities laws so they would be appropriate to include. The ASB directed the Task Force to also consider how the proposed standard might impact each auditor in situations involving a change in auditor (i.e. a predecessor auditor issued an audit report on the financial statements to be included in an offering document and the successor auditor performs a review of interim financial information which is also included in the offering document).

7. 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* while minimizing differences with the proposed PCAOB standard dealing with Other Information.

ISA 720 (Revised) as a Base for Revised Standard

Mr. Santay acknowledged that the Task Force's charge was to harmonize AU-C section 720 with ISA 720 (Revised) and that the ASB has accomplished this on other standards by using the ISA as a base for a revised SAS. However, Mr. Santay questioned the appropriateness of expanding the requirements in extant AU-C section 720 which is intended to address the potential undermining of the credibility of audited financial statements due to material inconsistencies between the audited financial statements and other information in the annual report. Ms. Kassman further stated that the standard is intended to provide a performance requirement for auditors to make sure that what management represented to them as part of the financial statement audit is not in conflict with what the company is telling others and that AU-C section 720 was not intended to be a reporting standard. Messrs. Miller and Kaye questioned why extant AU-C section 720 is being revised as they felt that the standard is fine as is. Mr. Webb responded that the revision is not because there is anything wrong with extant AU-C section 720 but instead to converge with ISA 720 (Revised). Mr. Pallais stated that he would support not converging with ISA 720 (Revised) as he feels that extant AU-C section 720 is more easily operationalized than ISA 720 (Revised). Mr. Pallais suggested that the addition of a clear definition of the term *annual report* to extant AU-C section 720 would result in accomplishing the goal of clarifying when the standard applies.

Mr. Landes stated that a primary goal of the IAASB project was to add transparency to the auditor's report with respect to the auditor's responsibility for information included in the entity's annual report but which is not covered by the audit of the financial statements. Mr. Landes stated that the ASB may want to leave extant AU-C section 720 largely unchanged and consider whether the auditor's report should address other information in the annual report. Mr. Webb stated that he does not see the need for a reporting requirement for American nonpublic entities.

Ms. Kassman stated that when the proposed revised AU-C section 720 is exposed for public comment, the explanatory memorandum could include a specific request for comment asking what documents the respondents consider to be annual reports.

After discussion, the ASB directed the Task Force to draft a revised proposed standard that:

- Uses extant AU-C section 720 as a base
- Includes a clear definition of *annual report* so that practitioners understand what documents are in the scope of the standard
- Leaves performance (work effort) requirements largely unchanged

The Task Force and the ASB will need to continue discussion as to whether the revised standard should require auditor reporting as the ASB is currently divided on the issue.

Auditor Responsibility for Documents Received After the Date of the Auditor's Report on the Financial Statements

Mr. Landes stated that it is his personal view that the auditor should not be responsible for other information received after the date of the auditor's report – other than the auditor's responsibilities for subsequent discovery of facts. Ms. Kassman stated that not-for-profits issue annual reports long after the completion of the audit so this may not be appropriate. The ASB directed the Task Force to consider and that the ASB will discuss at a future meeting.

Ms. Gantnier thanked the ASB members for their input and stated that it is the Task Force's plan that it will present a revised first read draft of a proposed revised AU-C section 720 that uses extant AU-C section 720 as a base at the July 2015 ASB meeting.

8. Performance Audits

Jim Dalkin, Chair of the Performance Audit Task Force, presented a paper to the ASB that proposed establishing standards for the following new services:

- A direct engagement that would be similar to an examination engagement performed under the attestation standards, but would not require management to provide an assertion about whether the subject matter is in accordance with the criteria. Such a service might be useful to a responsible party who is uncertain about whether, or the extent to which, the subject matter is in accordance with the criteria, and is looking to the practitioner to make that determination. Another proposed feature of a direct engagement is that the practitioner could develop the subject matter.
- A specified procedures engagement that would be similar to an agreed-upon procedures engagement performed under the attestation standards, but the practitioner (rather than the specified parties) could develop the specified procedures. Use of the report would not be restricted to the specified parties, as it is in an agreed-upon procedures engagement. An example of a situation for which this service might be useful is a responsible party who request that a practitioner perform procedures and report the findings in a specified procedures report that could be provided to the public to demonstrate the efforts it has made to rectify a deficiency.

The ASB discussed issues related to these engagement including

- the need for the practitioner to be independent of the subject matter;
- whether a practitioner could obtain reasonable assurance without obtaining an assertion from the responsible party;
- whether the practitioner's report should contain only findings and recommendations or a conclusion about whether the subject matter is in accordance with the criteria;
- the need to differentiate a direct engagement report from an examination report to accurately communicate the nature of the service;
- how a direct engagement differs from a consulting engagement;
- whether to permit a limited assurance direct engagement;
- whether the responsible party, in a specified procedures engagement, would need to take responsibility for the procedures if they were developed by the practitioner.

The ASB plans to discuss this agenda item again at its July 2015 meeting.